The communist delegation included: Chou En-lai, Lin Tsu-han, Yeh Chien-ying, Lin Piao and Li Wei-han.

The government delegation left Nanking for Peiping on April 1, when the discussions were formally started. The discussions were based on Mao Tse-tung's eight-point proposal, but no results were reached.

On April 16, Huang Shao-hsiung, one of the government delegates, returned to Nanking, bringing back a draft agreement prepared by the communists, who demanded the signing by the government representatives. This draft contained eight articles and 24 paragraphs, which amounted to nothing but unconditional surrender. The communists demanded the immediate abolition of the constitution and the immediate take-over of all government areas and their resources. They demanded the immediate crossing of the Yangtze river by the communist troops and the establishment of a joint committee, to be headed by a communist, for the reorganization of all government armed forces. They demanded the government delegates to sign the proposed agreement by April 20, which date was fixed by the communists as the time limit for the negotiations.

On April 20, the government informed the communists that these terms were unacceptable and expressed hope that the communists would reconsider their attitude. On the following day, Mao Tse-tung and Chu Teh ordered a general offensive against government forces, and communist troops crossed the Yangtze river to attack Nanking. The peace negotiations were thus brought to a tragic close, and large-scale fighting resumed on all fronts.

Fearing that the communists might not be sincere in the negotiations, the government had started the evacuation of government departments and agencies to Canton in January for even during the negotiations the communists did not cease hostilities. Their attack in the vicinity of Anking was intensified at the time of the departure of the Government peace delegation from Nanking. On January 19, the Ministry of Foreign Affairs notified the diplomatic corps in Nanking that, in view of the closeness of the capital to the war areas and as a measure for their safety, members of the diplomatic missions were requested to make preparations to move to Canton.

Military Campaign, 1949

Following their occupation of the entire northeastern provinces, Lin Pao's communist troops continued to push toward the Tientsin-Peiping area. Meanwhile, Nieh Yung-chen's Red units became more active in areas west and south of Peiping. Severe fighting raged in the Tientsin sector along the Peiping-Mukden railway. After the fall of Tientsin into communist hands on January 15, 1949, however, only skirmishes took place until the announcement of a local truce for Peiping on January 22, when Fu Tso-yi virtually surrendered to the communists.

In central China, communist troops reached the northern bank of the Yangtze river by the end of January. Since then no major fighting occurred until April 21, when the Reds crossed the river at Tikang, southwest of Nanking. The nationalists evacuated Nanking on April 23, and the communists entered the capital on the following day.

After taking Nanking, the communists drove southeastward to the Kiangsu-Chekiang border. They took Hangchow, the provincial capital of Chekiang, on April 30. Shanghai was thus thrown under a complete siege. Fighting continued in the immediate environs of Shanghai for two weeks before the government forces finally evacuated the great port on May 26. The communists employed 600,000 men in the operations in the Shanghai area and sustained some 100,000 casualties.

Following the loss of Shanghai, government troops suffered further setbacks, and by October 14, 1949, Canton had also been evacuated. The following are the dates of the fall and evacuation of important cities: Hankow, May 16; Sian, May 20; Nanchang, July 21; Foochow, August 17; Lanchow, August 27; Canton, October 14; Amoy, October 17; Swatow, October 21; Kweilin, November 22; Liuchow, November 25; Chungking, November 30; and Chengtu, December 26.

Harbin and Moscow Pacts

On October 16, 1949, the Central News Agency made known two secret pacts signed separately at Harbin and Moscow between the Chinese Communists and the Soviet Union; giving the latter virtual control of China's military, economic and political affairs. The pacts also stipulate that the Chinese Communists must assist Russia in the event of another war.

The main points of the Harbin pact are:

1. Russia will give full support to the Chinese Communists in foreign and military affairs.

2. Russia and the Chinese Communists should cooperate in exploiting the economy of China's Northeast (Manchuria).

3. The Chinese Communists recognize Russia's special rights to inland and air communications in the Northeast.

4. Russia will supply and maintain a standing air force of 50 planes for the Chinese Communists.

5. Russia will hand over captured Japanese arms and ammunition to the Chinese Communists in two batches.

6. Russia will sell all the military equipment and supplies to the Chinese Communists under her control in the Northeast at reasonable prices.

7. In the event of violent changes in the Northeast, the Chinese Communist armies there will be allowed to retreat to Soviet Russia via northern Korea.

8. Russia consents to the establishment of air force training centers by the Chinese Communists in northern Korea and in Siberia.

9. Russia will secretly assist the Chinese Communists in the event of any landing operations against the Northeast by the Kuomintang forces.

10. The Chinese Communists should supply all information and intelligence reports regarding Kuomintang China and the United States.

11. Except a certain percentage needed locally, all cotton, soybeans and other strategic materials produced in the Northeast should be sent to Russia.

12. Russia should assist the Chinese Communists to expand their activities in Sinkiang.

13. Special areas in Liaoning and Antung provinces should be designated for the stationing of northern Korean troops, and when necessary, these areas should be ceded to northern Korea.

The following are the main points of the Pact signed in Moscow:

1. Russia enjoys priority in mineral rights in China. A Chinese commercial company under the joint management of Russia and the Chinese Communists should be organized to implement such priority.

2. Russia should be allowed to station troops in the Northeast and Sinkiang.

3. In the event of another world war, the Chinese Red Army should fight side by side with Russia. The overall supreme commander should be named by Russia and the deputy commander named by the Chinese Red Army.

4. Russia should assist the Chinese Communists in organizing an air force.

5. The organization of the Chinese Communist party should be enlarged and the Far Eastern Cominform should be established in China.

6. In the event of another war in Europe involving Russia, the Chinese Communists should send an expeditionary force of 100,000 and a labor corps of 1,000,000 men to assist Russia in her war effort.

7. Russia should train and equip 11 divisions of the Chinese Red Army in the nearest future.

"The People's Republic of China"

On October 1, 1949, the Chinese Communists established a "People's Central Government" of the so-called "People's Republic of China" in Peiping after ten days' meeting of the so-called "People's Political Consultation Conference." The communist leader, Mao Tse-tung, was made chairman of the "Council of the People's Central Government" which is composed of 56 members.

Six vice-chairmen were later appointed. They are: Chu Teh, the communist commander-in-chief; Liu Shao-chi, head of the Communist party's organization bureau; Li Chi-shen, head of the so-called "Revolutionary Committee of the Kuomintang"; Madame Sun Yat-sen; Chang Lan, chairman of the outlawed Democratic League; and Kao Kang, chairman of the "People's Government of Manchuria." Chou En-lai was appointed premier and concurrently foreign minister of the puppet government.

On October 9, 1949, the eve of the 38th anniversary of the Chinese Republic, Generalissimo Chiang Kai-shek issued a message to the Chinese people, condemning Russia's aggressive designs on China and her creation of the puppet communist regime. The following is the full text of the message:

"Tomorrow will be the 38th anniversary of the Republic of China. Since the founding of the Chinese Republic by Dr. Sun Yat-sen, whenever this solemn day came around, our people celebrated it with great rejoicing. But, on the eve of this anniversary, those of our compatriots who live in the communist areas will remember it as a day of bitterness and sorrow.

"On the Double Tenth 38 years ago, the 2,000-year-old monarchical system was uprooted, and then Manchu autocracy was overthrown. The Republic of China was then born. Soon afterwards, however, we were plunged into

a second revolution. We fought Yuan Shih-kai against his monarchical conspiracy. We fought against the restoration of Manchu rule thereby protecting the constitution. In 1926-28, we launched the Northern Expedition against the warlords, and finally in 1937, the War of Resistance against Japan. Through great sacrifices, we succeeded in consolidating the Republic and in preserving our national flag and national anthem. During these 38 years, the Republic has become the symbol of our national spirit and the highest organization that dominate our common life. The republican system, name, flag and anthem constitute a permanent and indelible basis of our life and completely engage and represent our interests, our thoughts and action.

"Now the Chinese Communists had convened the so-called 'People's Political Consultation Conference' which was composed of a group of undesirable elements of the country, shameless traitors and opportunists. In less than ten days, they had carried out what the Communist Internationale previously planned for them. They had abolished the Chinese Republic, established a Soviet totalitarian form of government, adopted a red flag of the Russian type, and changed our national anthem. Those of our compatriots who have already suffered greatly behind the Iron Curtain cannot see our national flag or sing our national anthem. It is imaginable how much they have been suffering from the loss of their families and their country. At this time of international tension and national crisis our people in the rear or abroad must realize the difficulties involved in the creation of the Chinese Republic and must assume the responsibility of saving our country and working for national existence. Though I have left the government, I join my fellow countrymen in doing the utmost for the completion of the National Revolution and continuing the fight against the communists in order to give rebirth to our nation.

"The revolt of the Chinese Communists is not merely for the seizure of political power and the overthrow of our government but it has been instigated by Soviet Russia to destroy our country. This is why they had adopted exactly the same methods with which Russia conquered her eastern European satellites. During the past four years, under Russian instigation, the first step of the Communist parties of eastern Europe, using the name 'New Democracy,' was to raise the slogan of coalition government for the purpose of deceiving the people. Then in the name of the so-called people's democratic dictatorship, they had established the totalitarian form of government, called Central People's Government, with which to control the people and make them subservient to Soviet Russia.

"The Chinese Communists fully realize that if they should try to bring the Chinese people under Russian rule, they would not only be opposed by the people but would likely cause a split in the ranks and files within their party. Thus they had long ago laid the foundation by first suppressing the national feeling and sentiment. In the past seven years, they started a rigid disciplinary movement which was soon followed by the cruel three point investigation program, aiming at the liquidation of the free way of life, the family relationship, and national morality. Indirectly, such movements served only to deal a crushing blow to national consciousness. Following the denunciation of Titoism by the Cominform, the Chinese Communists adopted a program formally declaring war against nationalism. In April this year, they went one step further by announcing their determination to fight side by side with the Soviet Union in the event of World War III. In early July, they further made known their intention to work for the interests of Soviet Russia.

"The democratic system of the Chinese Republic is a safeguard for the free rights of the Chinese people. The national flag of the Republic is the symbol of the National Revolution. The name of the Republic is the binding force of the people's patriotic sentiments. The anthem of the Chinese Republic tells the purpose of our national reconstruction based on the Three People's Principles.

"The Double Tenth anniversary is celebrated in commemoration of the founding of the Republic. This forms an epic written with the blood and tears of our revolutionary fathers, soldiers and people. It represents our national consciousness and love for our land.

"So long as there is one single national flag of Blue Sky and White Sun flying on the soil of the Chinese territory, it will distinctively mark the existence of freedom and independence. This is why Yuan Shih-kai dared not openly use his imperial year of Hung Hsien, and Wang Ching-wei dared not change our national flag. Supported as they were by the imperialistic countries, they did not dare to offend our national spirit. Now the Chinese Communists are so insolent as to change not only the substance but also the form of the Chinese Republic. The Chinese Communists are even more traitorous than Yuan Shih-kai or Wang Ching-wei. The Russian aggressor is even more malicious than the Japanese militarists.

"The melodrama now being staged in Peiping is entirely directed by Soviet Russia. The following two points will make this clear. First, from the theoretical point of view by which the bogus regime was created, Mao Tse-tung, in July this year, summed up his party's autarchical and traitorous activities in a formula—the union between the working class and the people's democratic forces of the world through the people's democratic dictatorship with the communist-led workers and peasants federations as foundation. This is what they called the People's Political Consultation Conference which adopted the so-called organic law of the People's Central Government and the Common Program of the People's Political Consultation Conference. These are based on the realization of the people's democratic dictatorship and union with Soviet Russia and the new people's republics. This is exactly the formula proposed by Mao Tse-tung.

"We must know that the so-called people's democratic dictatorship is nothing but the dictatorship of the Communist party, and the so-called people's republics are those satellite countries behind the Iron Curtain now under Russian control. We can now see that the government set up by the People's Political Consultation Conference is a totalitarian dictatorship subject to Soviet rule. We can also understand that leadership of the working class is the leadership of the Communist party, having nothing to do with the real working class. What they call people's democratic dictatorship is the dictatorship of the Communist party, contrary to democracy. For four years, Moscow, using such cunning and ambiguous phraseology as a smoke screen, went ahead with her aggressive designs and devoured the various countries of eastern Europe. The formula Mao Tse-tung used today is what Moscow had employed in creating bogus governments in eastern Europe, whose purpose is to destroy our country and to enslave our people.

"Second, let us see how simply the Chinese Communist puppet regime was created. When the so-called Council of the People's Central Government was set up on October 1, Mao Tse-tung made a proclamation, which was sent to the consulates of the various powers in China by the puppet premier and foreign minister, Chou En-lai. On the following day, Soviet Deputy Foreign Minister Gromyko announced Russia's recognition of the bogus regime. Eighteen years ago, when Doihara created the puppet Manchukuo, there were formal documents exchanged between Tokyo and Changchun. But today when the Soviet Union recognized the bogus regime in Peiping, it was based upon mere news broadcasts from Peiping and Moscow. The way they did it was even more perfunctory. It is quite obvious that everything was done according to a prearranged schedule.

"The melodrama staged by Soviet Russia has the following purposes: diplomatically, to cheat the democratic countries of the world, and militarily, to prepare the battlefield for World War III. What Mao Tse-tung, Chu Teh and other communists try to do is to use our 450-million people as cannon fodder for the Soviet Union, to offer the twelve million square miles of our territory as a battlefield, and to sacrifice the life and property of the Chinese people and our national resources to Soviet Russia as a hostage. It is more shameless and heartless than Yuan Shih-kai who accepted Japan's Twenty-one demands in order to further his monarchical dreams, or Wang Ching-wei who signed the Program for the Adjustment of Sino-Japanese Relations in order to accelerate the establishment of his puppet regime.

"Fellow countrymen! If Russia should conquer China, she would be just like a tiger with wings. There would be no peace in the world. And if Mao and Chu should succeed in destroying our country for the benefit of Soviet imperialism, thereby placing one fourth of the world population behind the Iron Curtain, there would

be no chance for the Chinese nation to revive again. There is no doubt that the destiny of mankind hinges on whether Soviet Russia would be successful or not in her aggressive designs. China being the first country which falls prey to Russia's expansionist program, our territory and sovereignty have been infringed upon, our system of government and name of the Republic destroyed, our national flag and anthem changed, and finally, our 450-million people will be subjected to long foreign rule.

"During this life and death struggle, the only way by which our compatriots can save themselves as well as their country is to fight the communists to the bitter end and struggle against Russia. Those of our compatriots in the communist areas must unite themselves, guard against destruction by the communist agents, work hard, preserve every bit of available strength, wait for the Nationalist Army to come to their rescue, and render every assistance when our army begins its counter-attack. I can guarantee that under whatever circumstances and in spite of all difficulties, our army will be ready within a short time to start a counter-offensive. We will not disappoint our people living in the communist occupied areas. Those of us who are in Free China should be more on the alert, and unite for the fight. We must know that in a fallen nest, no eggs can be kept intact. This is the time for all patriots to fight with united efforts against our common enemy. We can never save our life unless we are determined to offer it to the national cause. We can never save our family unless we are determined to sacrifice it for the country. We must support the government, obey its laws, exterminate the communists with unremitting efforts, and fight against Russia. Do not covet temporary comfort. Forget personal interests. When we live, we must be a free man. When we die, we die in a free land. We should not be willing to become slaves under foreign rule. So long as the Soviet Union occupies a single inch of our territory, we will not shirk our responsibility in defending our country.

"Here I must point out that the recognition of the puppet Peiping regime by the Russian aggressor not only has violated the Sino-Soviet Treaty of Friendship and Alliance of 1945, but also torn up the Yalta agreement. It has violated not only international treaties and agreements but also the Charter of the United Nations. This can well be compared with Germany's disregard of the Versailles Treaty, Italy's challenge to the League of Nations Convention, and Japan's violation of the Nine-Power Pact.

"The Soviet creation of the puppet communist regime may be likened to the Japanese creation of the puppet state of Manchukuo in 1932. Every one knows that the establishment of Manchukuo was a prelude to the Japanese armed invasion of China which finally led to World War II. The communist rebellion in the past four years has created a situation in China even more serious than the situation existing during 1931-37.

"Now that Russia, in defiance of all, has been openly directing the puppet show in Peiping, not only the true features of the Chinese Communist rebellion have been exposed but also Russia has admitted her role as the ringleader of an international war. In other words, Russia's recognition of the bogus government signifies her direct participation in an aggressive war against China. Such is the plain fact which means the beginning of World War III, even though the world seems still unaware of it.

"China does not wish to utilize a world war to solve her communist problem. Even now we ourselves are fighting to the utmost in preventing the spread of the communist conflagration to other parts of the western Pacific and southeast Asia. But, if the democratic nations do not take action for collective security in time, the designs of the Russian militarists cannot be checked. In fact, the Russian militarists are already very active in the Far East in manufacturing another world war.

"In leading China's National Revolution during the past 25 years, I have had dealings with the communists. From my experience I know that the Far Eastern policies of Czarist and Soviet Russia are one and the same. The Chinese Communist party is not an ordinary political party, but the fifth column of Moscow's Communist Internationale. The Soviet seizure of Outer Mongolia and Sinkiang and her designs on China's Northeast are but a continuation of the Czarist aggressive policy. Since 1925, the communist infiltration into the Kuomintang, their attempt to prevent the Northern Expedition of 1926-28, and their subversive activities during the war against Japan, were all instigated by the Communist Internationale. At the end of the war, the Chinese Communists, under the direction of the Moscow aggressor, intrigued to overthrow the National Government of China and to seize sovereign power through armed rebellion. I am, therefore, convinced that our war against the communist rebellion would indirectly curb Russian aggression. Such a war will be the key to the existence of the Chinese nation and the success of Dr. Sun Yat-sen's Three People's Principles. I cannot but take this as my life-long mission.

"Unfortunately, our friends both at home and abroad have failed to understand this stand. Even the United States, our wartime ally, for the past four years mistook the Chinese Communists for agrarian reformers and thought their demand for a coalition government was a demand for democratic government. Our friends also dismissed the fact that the Chinese Communists are but Russia's slaves. Such misunderstanding has resulted in America's pursuing a contradictory policy toward China, which still prevails in America today.

"Let us, however, believe that the United States, now leading the world's democratic forces in opposition to aggression, is a country where faith and justice prevail. So long as our government continue to fight the communists and so long as our Northeast remains unrecovered, the United States cannot abandon international justice and evade her political responsibility. I cannot believe that the United States is a country which places her own interests above international justice. We have already suffered severe blows in our holy war against aggression and totalitarianism.

"In China some unstable elements who called themselves 'liberals' have directly or indirectly helped the communists in starting anti-civil war movements in government controlled areas, which proved to be a serious hindrance to the government's conscription and food requisition programs. During the past nine months, these shameless traitors used the high-sound name of peace as a camouflage to promote their pro-communist and pro-Russian activities and undermine the morale of the people and the armed forces. This has caused temporary setbacks in our anti-communist war. But if we continue to fight, our contribution to the Far Eastern and world peace will be great and its significance will be far-reaching. Now that the aggressor and his puppets have come out into the open as may be seen in the establishment of the puppet regime in Peiping and the immediate recognition of it by Russia, it can be proved that the Chinese Communists are only Moscow's tools for aggression on China, thereby endangering Far Eastern peace. It also proves that our war is fought for the preservation of freedom and independence and serves as a vanguard for the world-wide anti-communist and anti-aggression movement.

"My fellow countrymen! Since the creation of the puppet communist regime and its recognition by Soviet Russia, the international crisis has been further aggravated and the hope for world peace has further receded. The world cannot preserve its freedom if half of it is enslaved. While war goes on in one part of the world, there can be no peace in the rest of the world. In our anti-communist war, we have vast territory and the support of the people. The people in the communist areas have high hopes in us and will give us their cooperation. In spite of temporary setbacks, we will achieve final victory. We are confident that right will eventually prevail over might and righteousness begets strength. We are confident too that in this war for the independence of the Chinese Republic, for the maintenance of the freedom of the people, and for the preservation of international justice and world peace, the final victory will be ours.

"All people who do not wish to become slaves must unite as one man under the banner of Blue Sky and White Sun and do their utmost in continuing the war against communist aggression and tyranny. This war is for the recovery of our lost territory, the safeguarding of our national sovereignty, the maintenance of our free and democratic way of life, and for the preservation of our glorious history. Only by continuing the struggle can we preserve our nation, its form and title, our national colors, anthem and our National Day, the Double Tenth. Only by fighting can we remain true to the memory of the Father of our Republic and the revolutionary martyrs."

CHAPTER 12

FOREIGN AFFAIRS

China's foreign policy was defined by President Chiang Kai-shek in his inauguration address as President of the Republic of China under the new Constitution, in Nanking on May 20, 1948, as follows:

"First, concerning the United Nations. Following its establishment—the new government's first tasks, insofar as foreign policy is concerned, is to continue to support the United Nations and to strengthen it. Article 141 of our Constitution clearly prescribes China's obligations vis-a-vis the United Nations.

"We fought against the Axis powers for eight years and made heavy sacrifices because we had hoped that the ideal of world peace as signified by the United Nations would become a reality. It is true that the United Nations is as yet not powerful enough to maintain world peace. Because of the numerous setbacks the United Nations has encountered during the past two years, many have become dubious about its future. In fact, some have even begun to question whether the United Nations is worth having. On the contrary, because of the existence of such misgivings, we should redouble our efforts to sustain and strengthen it.

"Insofar as China is concerned, we did not bear the principal responsibility for the failure of the League of Nations. However, if the United Nations should unfortunately fail too, we cannot evade our share of the responsibility to mankind and to posterity. This is because China was one of its sponsor nations and has been a permanent member of the Security Council.

"Second, concerning international cooperation in general. Since the surrender of Germany and Japan, relations among the Allied powers have deteriorated. In place of cooperation, there is today mutual suspicion. The Chinese people are greatly disturbed over this state of affairs. China's policy, however, has been one of peace and cooperation. In dealing with any issue requiring international cooperation, we shall never be guilty of self-seeking or of neglecting the world's need for peace, prosperity and progress.

"In economic affairs, our industries and commerce cannot yet compare with those of other countries. However, this shall not deter us from participating in international trade and tariff agreements.

"In political matters, though we still have an armed rebellion at home and though the general educational standards of the nation are still comparatively low, we have not hesitated to participate in the Freedom of Information Conference and other projects calling for international cooperation in the social and cultural fields.

"We have regarded peace and cooperation as two of the highest ideals in international relations since the end of the recent war. The Chinese people, both those at home and others residing abroad, have maintained happy and cordial relations with the peoples of other nations. In the spirit of equality and reciprocity, they have constantly endeavored to promote friendship and mutual respect.

"It is true that for our economic recovery we shall need international assistance. But we fully realize that only through self-help could we make international aid really effective. Following the establishment of the new Government, we shall continue to adhere to our policy of international cooperation, and shall carry out a program of self-help at the same time.

"Third, concerning China's attitude toward the conclusion of peace treaties. At the time of the Japanese surrender, I declared that China would not seek revenge for what Japan had inflicted on the Chinese people. It has been my

belief that, both toward Germany and toward Japan, members of the United Nations should one and all adopt a policy of magnanimity. This should not be construed as a sign of weakness. On the contrary, reasonable magnanimity points the road to the attainment of our lofty ideals.

"In connection with Japan, we believe two points deserve attention. One, the Allied powers should do their best to foster the growth of truly democratic forces in Japan, so that there could be a genuine change in that nation's political and social systems and in the thoughts of the Japanese people with a view to uprooting Japanese militarism. Whether our policy of magnanimity will prove fruitful depends on whether our efforts are realistic. Two, China has no excessive demands to make upon Japan. After having suffered from Japanese aggression for more than eight years, China cannot but ask the other Powers to recognize that she is entitled to a special position when the Japanese peace terms are to be decided.

"The three points mentioned represent the major policies in our external relations. As Dr. Sun Yat-sen pointed out to us, the Chinese people should discharge their duties and enjoy their rights as befitting a civilized nation. This means that internationally we should seek to strengthen ourselves by our own efforts and externally to secure equality for China in the community of nations and at the same time to offer cooperation to the other nations. In this spirit, our country shall make its contributions toward upholding international righteousness and the preservation of world peace."

RELATIONS WITH THE UNITED STATES

1. Statements of Policies

On November 27, 1945, President Harry S. Truman appointed General George C. Marshall as his special envoy to China with ambassadorial rank. On December 15, 1945 he defined U. S. policy in China in the following words:

"As China moves toward peace and unity along the lines described above, the United States would be prepared to assist the National Government in every reasonable way to rehabilitate the country, improve the agrarian and industrial economy, and establish a military organization capable of discharging China's national and international responsibilities for the maintenance of peace and order.

"In furtherance of such assistance, it would be prepared to give favorable consideration to Chinese requests for credits and loans under reasonable conditions for projects which would contribute toward the development of a healthy economy throughout China and healthy trade relations between China and the United States."

At a press conference held in Washington on March 11, 1948, President Truman affirmed U. S. policy toward China. While suggesting that the base of the Chinese government be broadened, he stated emphatically, however, that this policy did not mean that communists should be included. He added that he did not want communists in the Chinese government or anywhere else.

China's policy toward the United States was explicitly defined in a report made by Dr. Wang Shih-chieh, then Minister of Foreign Affairs, at the first constitutional National Assembly of China on April 13, 1948:

"Sino-American friendship has both a long history and a solid basis. During the last four years, American opinion has been critical of us. Much of this adverse opinion consists of legitimate criticism but some of it is the result of malicious communist propaganda. The recent decision to continue aid to China by the United States Congress and Administration has again demonstrated the fundamental soundness of Sino-American friendship.

"Since V-J Day, the United States of America has afforded us, among other things, two major kinds of assistance: (1) She has helped our Government in repatriating two to three million Japanese, both military and civilian. Had it not been for this action, there would be an additional obstruction in our present campaign of communist suppression, (2) She helped to transport to north China and northeast China large contingents of our troops to accept surrender of Japanese troops.

"Our policy towards the United States of America is to maintain and to further the traditional friendship and cooperation that have so long characterized our relations."

2. Political

Treaty of Friendship, Commerce and Navigation — After the signing of the

New Sino-American Treaty* on January 11, 1943, the United States and China began negotiations with a view to concluding a commercial treaty. The result was the Treaty of Friendship, Commerce and Navigation which was signed in Nanking on November 4, 1946, by Dr. Wang Shih-chieh, then Minister of Foreign Affairs, and Dr. J. Leighton Stuart, then U. S. Ambassador to China.

Treaty of Friendship, Commerce and Navigation Between The Republic of China and the United States of America

Signed at Nanking on November 4, 1946

The Republic of China and the United States of America, desirous of strengthening the bond of peace and the ties of friendship which have happily long prevailed between the two countries by arrangements designed to promote friendly intercourse between their respective territories through provisions responsive to the spiritual, cultural, economic and commerical aspirations of the peoples thereof, have resolved to conclude a Treaty of Friendship, Commerce and Navigation, and for that purpose have appointed as their Plenipotentiaries:

The President of the National Government of the Republic of China:

Dr. Wang Shih-Chieh, Minister for Foreign Affairs of the Republic of China, and

Dr. Wang Hua-Cheng, Director of the Treaty Department of the Ministry of Foreign Affairs of the Republic of China; and

The President of the United States of America:

J. Leighton Stuart, Ambassador Extraordinary and Plenipotentiary of the United States of America to the Republic of China, and

Robert Lacy Smyth, Special Commissioner and Consul-General of the United States of America at Tientsin;

Who, having communicated to each other their full powers found to be in due form, have agreed upon the following Articles:

Article I

1. There shall be constant peace and firm and lasting friendship between the Republic of China and the United States of America.

2. The Government of each High Contracting Party shall have the right to send to the Government of the other High Contracting Party duly accredited diplomatic representatives, who shall be received and, upon the basis of reciprocity, shall enjoy in the territories of such other High Contracting Party the rights, privileges, exemptions and immunities accorded under generally recognized principles of international law.

Article II

1. The nationals of either High Contracting Party shall be permitted to enter the territories of the other High Contracting Party, and shall be permitted to reside, travel and carry on trade throughout the whole extent of such territories. In the enjoyment of the right to reside and travel, the nationals of either High Contracting Party shall be subject, within the territories of the other High Contracting Party, to the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, provided that they shall not be subject to unreasonable interference and that they shall not be required to apply for or carry any travel documents, other than (a) valid passports, or (b) other documents of identification issued by the competent authorities of their respective countries.

2. The nationals of either High Contracting Party shall, throughout the whole extent of the territories of the other High Contracting Party, be permitted, without interference, to engage in and to carry on commerical, manufacturing, processing, scientific, educational, religious and philanthropic activities not forbidden by the laws and regulations enforced by the duly constituted authorities; to engage in every profession not reserved exclusively to nationals of the country; to acquire, hold, erect or lease, and occupy appropriate buildings, and to lease appropriate lands, for residential, commercial, manufacturing, processing, professional, scientific, educational, religious, philanthropic and mortuary purposes; to employ agents or employees of their choice regardless of nationality; to do anything incidental to or necessary for the enjoyment of any such rights and privileges; and to exercise all these rights and privileges upon the same terms as nationals of such other High Contracting Party in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities.

3. The nationals of either High Contracting Party shall not in any case, in the enjoyment of the rights and privileges provided by paragraphs 1 and 2 of this Article, receive treatment with respect to such rights and privileges less favorable than the treatment which is or may hereafter be accorded to the nationals of any third country.

4. Nothing in this Treaty shall be construed to affect existing statutes of either High Contracting Party in relation to immigration or the right of either High Contracting Party to enact statutes relating to immigration; provided, however, that nothing in this paragraph shall prevent the nationals of either High Contracting Party from entering, traveling and residing in the territories of the other High Contracting Party in order to carry on trade between the Republic of China and the United States of America, or to engage in any commerical activity related thereto or connected therewith, upon terms as favorable as are or may hereafter be accorded to the nationals of any third country entering, traveling and residing in such territories in order to carry on trade between such other High Contracting Party and such third country or to engage in commerical activity related to or connected with such trade; and provided further that nothing in the provisions of Section 3 of the Immigration Act of the United States of America dated February 5, 1917, which delimit certain geographical zones for the purpose of restricting immigration, shall be construed as preventing admission into the United States of Chinese persons and persons of Chinese descent.

Article III

1. As used in this Treaty the term "corporations and associations" shall mean corporations, companies, partnerships and other associations, whether or not with limited liability and whether or not for pecuniary profit, which have been or may hereafter be created or organized under the applicable laws and regulations enforced by the duly constituted authorities.

2. Corporations and associations created or organized under the applicable laws and regulations enforced by the duly constituted authorities within the territories of either High Contracting Party shall be deemed to be corporations and associations of such High Contracting Party and shall have their juridical status recognized within the territories of the other High Contracting Party, whether or not they have a permanent establishment, branch or agency therein. Corporations and associations of either High Contracting Party shall have the right to establish their branch offices in the territories of the other High Contracting Party and to fulfill their functions therein after they have complied with requirements of admission not inconsistent with the provisions of the following paragraph, provided that the right to exercise such functions is according to this Treaty or the exercise of such functions is otherwise consistent with the laws and regulations of such other High Contracting Party.

3. The High Contracting Parties, adhering generally to the principle of national treatment with respect to the matters enumerated in this paragraph, agree that corporations and associations of either High Contracting Party shall be permitted, throughout the whole extent of the territories of the other High Contracting Party, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, to engage in and carry on commercial, manufacturing, processing, financial, scientific, educational, religious and philanthropic activities; to acquire, hold, erect or lease, and occupy appropriate buildings, and to lease appropriate lands, for commerical, manufacturing, processing, financial, scientific, educational, religious and philanthropic purposes; to employ agents or employees of their choice regardless of nationality; to do anything incidental to or necessary for the enjoyment of such rights and privileges; and to exercise all these rights and privileges, without interference, upon the same terms as corporations and associations of such other High Contracting Party unless otherwise provided by the laws of that High Contracting Party. The preceding sentence, and all other provisions of this Treaty according to corporations and associations of the Republic of China rights and privileges upon the same terms as corporations and associations of the United States of America, shall be construed as according such rights and privileges, in any state, territory or possession of the United States of America, upon the same terms as such rights and privileges are or may hereafter be accorded therein to corporations and associations created or

* For full text of the New Sino-American Treaty, see China Handbook, 1943.

organized in other states, territories or possessions of the United States of America.

4. Corporations and associations of either High Contracting Party shall not in any case, in the enjoyment of the rights and privileges provided by this Article, receive treatment with respect to such rights and privileges less favorable than the treatment which is or may hereafter be accorded to corporations and associations of any third country.

Article IV

1. The nationals, corporations and associations of either High Contracting Party shall enjoy, throughout the territories of the other High Contracting Party, rights and privileges with respect to organization of and participation in corporations and associations of such other High Contracting Party, including the enjoyment of rights with respect to promotion and incorporation, the purchase, ownership and sale of shares and, in the case of nationals, the holding of executive and official positions, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, upon the same terms as nationals, corporations and associations of any third country. Corporations and associations of either High Contracting Party, organized or participated in by nationals, corporations and associations of the other High Contracting Party pursuant to the rights and privileges enumerated in this paragraph shall be permitted to exercise the functions for which they are created or organized, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, upon the same terms as corporations and associations that are similarly organized or participated in by nationals, corporations and associations of any third country. With respect to the ownership of stock by nationals, corporations and associations of either High Contracting Party in corporations and associations of the other High Contracting Party engaged in mining on public lands of such other High Contracting Party, neither High Contracting Party shall be obligated by the provisions of this paragraph to accord rights and privileges greater than those which its nationals, corporations and associations receive from the other High Contracting Party.

2. The nationals, corporations and associations of either High Contracting Party shall enjoy, throughout the territories of the other High Contracting Party, and in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, the right to organize and participate in, including the right to control and manage, corporations and associations of such other High Contracting Party for engaging in commerical, manufacturing, processing, scientific, educational, religious and philanthropic activities; provided, however, that neither High Contracting Party shall be obligated to accord within its territories to the nationals, corporations and associations of the other High Contracting Party, treatment with respect to such organization and participation, including the right to control and manage, as favorable as that which is or may herefater be accorded to its own nationals, corporations and associations.

3. Corporations and associations of either High Contracting Party organized and participated in, including those controlled and those managed by nationals, corporations and associations of the other High Contracting Party pursuant to the rights and privileges enumerated in the preceding paragraph shall be permitted to engage in and carry on such commerical, manufacturing, processing, scientific, educational, religious and philanthropic activities within the territories of the High Contracting Party under the laws of which they are organized upon the same terms as corporations and associations of such High Contracting Party organized and participated in, including those controlled and those managed, by its own nationals, corporations and associations, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities.

Article V

Should either High Contracting Party hereafter accord rights in respect of exploration for and exploitation of mineral resources in its territories to nationals, corporations or associations of any third country, such rights shall be accorded to nationals, corporations or associations of the other High Contracting Party, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities.

Article VI

1. Throughout the whole extent of the territories of each High Contracting Party the nationals of the other High Contracting Party shall receive the most constant protection and security for their persons and property, and shall enjoy in this respect the full protection and security required by international law. To these ends, persons accused of crime shall be brought to trial promptly, and shall enjoy all the rights and privileges which are or may hereafter be accorded by the laws and regulations enforced by the duly constituted authorities; and nationals of either High Contracting Party, while within the custody of the authorities of the other High Contracting Party, shall receive reasonable and humane treatment. In so far as the term "nationals" where used in this paragraph is applicable in relation to property, it shall be construed to include corporations and associations.

2. The property of nationals, corporations and associations of either High Contracting Party shall not be taken within the territories of the other High Contracting Party without due process of law and without the prompt payment of just and effective compensation. The recipient of such compensation shall, in conformity with such applicable laws and regulations as are not inconsistent with paragraph 3 of Article XIX of this Treaty, be permitted without interference to withdraw the compensation by obtaining foreign exchange, in the currency of the High Contracting Party of which such recipient is a national, corporation or association, upon the most favorable terms applicable to such currency at the time application therefor is filed, provided application is made within one year after receipt of the compensation to which it relates. The High Contracting Party allowing such withdrawal reserves the right, if it deems necessary, to allow such withdrawal in reasonable installments over a period not to exceed three years.

3. The nationals, corporations and associations of either High Contracting Party shall throughout the territories of the other High Contracting Party receive protection and security with respect to the matters enumerated in paragraphs 1 and 2 of this Article, upon compliance with the laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, no less than the protection and security which is or may hereafter be accorded to the nationals, corporations and associations of such other High Contracting Party and no less than that which is or may hereafter be accorded to the nationals, corporations and associations of any third country.

4. The nationals, corporations and associations of either High Contracting Party shall enjoy freedom of access to the courts of justice and to administrative tribunals and agencies in the territories of the other High Contracting Party, in all degrees of jurisdiction established by law, both in pursuit and in defense of their rights; shall be at liberty to choose and employ lawyers, interpreters and representatives in the prosecution and defense of their rights before such courts, tribunals and agencies and shall be permitted to exercise all these rights and privileges, in conformity with the applicable laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities, on terms no less favorable than the terms which are or may hereafter be accorded to the nationals, corporations and associations of such other High Contracting Party and no less favorable than are or may hereafter be accorded to the national, corporations and associations of any third country. Moreover, corporations and associations of either High Contracting Party which do not have a permanent establishment, branch or agency within the territories of the other High Contracting Party shall be permitted to exercise the rights and privileges accorded by the preceding sentence upon the filing, at any time prior to appearance before such courts, tribunals or agencies, of reasonable particulars required by the laws and regulations of such other High Contracting Party without any requirement of registration or domestication. In the case of any controversy susceptible of settlement by arbitration, which involves nationals, corporations or associations of both High Contracting Parties and is covered by a written agreement for arbitration, such agreement shall be accorded full faith and credit by the courts within the territories of each High Contracting Party, and the award or decision of the arbitrators shall be accorded full faith and credit by the courts within the territories of the High Contracting Party in which it was rendered, provided the arbitration proceedings were conducted in good faith and in conformity with the agreement for arbitration.

Article VII

The dwellings, warehouses, factories, shops, and other places of business, and all premises thereto appertaining, of the nationals, corporations and associations of either High Contracting Party, located in the territories of the other High Contracting Party, shall not be subject to unlawful entry or molestation. There shall not be made any visit to, or any search of, any such dwellings, buildings or premises, nor shall any books, papers of accounts therein be examined or inspected, except under conditions and in conformity with procedures no less favorable than the conditions and procedures prescribed for nationals, corporations and associations of such other High Contracting Party under laws and regulations, of the duly constituted authorities within the territories thereof. In no case shall the nationals, corporations or associations of either High Contracting Party in the territories of the other High Contracting Party be treated less favorably with respect to the foregoing matters than the nationals, corporations or associations of any third country. Any visit, search, examination or inspection which may be permissible under the exception stated in this Article shall be made with due regard for, and in such a way as to cause the least possible interference with, the occupants of such dwellings, buildings or premises or the ordinary conduct of any business or other enterprise.

Article VIII

1. The nationals, corporations and associations of either High Contracting Party shall be permitted to acquire, hold and dispose of real and other immovable property throughout the territories of the other High Contracting Party subject to the conditions and requirements as prescribed by the laws and regulations of such other High Contracting Party, and, subject to the provisions of the succeeding sentence, the treatment accorded to such nationals, corporations and associations shall not be less favorable than that accorded to nationals, corporations and associations of any third country. In the case of any state, territory or possession of the United States of America which does not now or does not hereafter permit the nationals, corporations and associations of the Republic of China to acquire, hold or dispose of real and other immovable property upon the same terms as nationals, corporations and associations of the United States of America, the provisions of the preceding sentence shall not apply. In that case, the Republic of China shall not be obligated to accord to nationals of the United States of America domiciled in, and to corporations and associations of the United States of America created or organized under the laws of, such state, territory or possession treatment more favorable than the treatment which is or may hereafter be accorded within such state, territory or possession to nationals, corporations and associations of the Republic of China.

2. If a national, corporation or association of either High Contracting Party, whether or not resident and whether or not engaged in business or other activities within the territories of the other High Contracting Party, is on account of alienage prevented by the applicable laws and regulations within such territories from succeeding as devisee, or as heir in the case of a national, to real or other immovable property situated therein, or to interests in such property, then such national, corporation or association shall be allowed a term of three years in which to sell such property or interest, this term to be reasonably prolonged if circumstances render it necessary. The transmission or receipt of such property shall be exempt from the payment of any estate, succession, probate or administrative taxes or charges other or higher than those now or hereafter imposed in like cases upon the nationals, corporations or associations of the High Contracting Party in whose territory the property is or the interests therein are situated. Moreover, such devisee or heir shall, in conformity with such applicable laws and regulations as are not inconsistent with paragraph 3 of Article XIX, be permitted without interference to withdraw the proceeds of the sale of such property, by obtaining foreign exchange, in the currency of the High Contracting Party of which the devisee is a national, corporation or association, or of which the heir is a national, during a period not in excess of three years after application therefor, upon the most favorable terms applicable to such currency at the time application for the withdrawal of such proceeds is filed, provided such application is made within one year after receipt of the proceeds of sale to which it relates.

3. Nothing in paragraphs 1 and 2 of this Article shall modify or supersede

Article IV of the Treaty of January 11, 1943, between the Republic of China and the United States of America for the Relinquishment of Extraterritorial Rights in China and the Regulation of Related Matters or the paragraph relating to that Article in the exchange of notes accompanying that Treaty.

4. The nationals of either High Contracting Party shall have full power to dispose of personal property of every kind anywhere within the territories of the other High Contracting Party, by testament, donation or otherwise, and their heirs, legatees or donees, being persons of whatever nationality or corporations or associations wherever created or organized, whether resident or non-resident and whether or not engaged in business within the territories of the High Contracting Party where such property is situated, shall succeed to such property, and shall be permitted to take possession thereof, either by themselves or by others acting for them, and to retain or dispose of it at their pleasure, exempt from any restrictions, taxes or charges other or higher than those to which the heirs, legatees or donees of nationals of such other High Contracting Party are or may hereafter be subject in like cases. The nationals, corporations and associations of either High Contracting Party shall be permitted to succeed, as heirs, legatees and donees, to personal property of every kind within the territories of the other High Contracting Party, left or given to them by nationals of such other High Contracting Party or by nationals of any third country, and shall be permitted to take possession thereof, either by themselves or by others acting for them, and to retain or dispose of it at their pleasure, exempt from any restrictions, taxes or charges other or higher than those to which the nationals, corporations and associations of such other High Contracting Party are or may hereafter be subject in like cases. Nothing in this paragraph shall be construed to affect the laws and regulations of either High Contracting Party prohibiting or restricting the direct or indirect ownership by aliens or foreign corporations and associations of the shares in, or instruments of indebtedness of, corporations and associations of such High Contracting Party carrying on particular types of activities.

5. The nationals, corporations and associations of either High Contracting Party shall, subject to the exception in paragraph 2 of Article X, receive treatment, in respect of all matters which relate to the acquisition, holding, leasing, possession or disposition of personal property, no less favorable than the treatment which is or may hereafter be received by nationals, corporations and associations of any third country.

Article IX

The nationals, corporations and associations of either High Contracting Party shall be accorded within the territory of the other High Contracting Party effective protection in the exclusive use of inventions, trademarks and trade names, upon compliance with the applicable laws and regulations, if any, respecting registration and other formalities which are or may hereafter be enforced by the duly constituted authorities; unauthorized manufacture, use or sale of such inventions, or imitation or falsification of such trademarks and trade names, shall be prohibited, and effective remedy therefor shall be provided by civil action. The nationals, corporations and associations of either High Contracting Party shall be accorded throughout the territory of the other High Contracting Party effective protection in the enjoyment of rights with respect to their literary and artistic works, upon compliance with the applicable laws and regulations, if any, respecting registration and other formalities which are or may hereafter be enforced by the duly constituted authorities; unauthorized reproduction, sale, diffusion or use of such literary and artistic works shall be prohibited, and effective remedy therefor shall be provided by civil action. In any case, the nations, corporations and associations of either High Contracting Party shall enjoy, throughout the territories of the other High Contracting Party, all rights and privileges of whatever nature in regard to copyrights, patents, trademarks, trade names, and other literary, artistic and industrial property, upon compliance with the applicable laws and regulations, if any, respecting registration and other formalities which are or may hereafter be enforced by the duly constituted authorities, upon terms no less favorable than are or may hereafter be accorded to the nationals, corporations and associations of such other High Contracting Party, and, in regard to patents, trademarks, trade names and other industrial property, upon terms no less favorable than are or may hereafter be accorded to the nationals, corperations and associations of any third country.

Article X

1. The nationals of either High Contracting Party residing within the territories of the other High Contracting Party, and the nationals, corporations and associations of either High Contracting Party engaged in business or in scientific, educational, religious or philanthropic activities within the territories of the other High Contracting Party, shall not be subject to the payment of any internal taxes, fees or charges other or higher than those which are or may hereafter be imposed by laws and regulations enforced by the duly constituted authorities upon the nationals, corporations and associations of such other High Contracting Party. Moreover, in the case of corporations and associations specified in the preceding sentence, such taxes, fees or charges shall not be imposed upon or measured by any income, property, capital or other criterion of measurement in excess of that reasonably allocable or apportionable to the territories of such other High Contracting Party.

2. The nationals, corporations and associations of either High Contracting Party shall not be subject to the payment of any internal taxes, fees or charges imposed by laws and regulations enforced by the duly constituted authorities within the territories of the other High Contracting Party other or higher than those which are or may hereafter be imposed upon the nationals, residents, corporations and associations of any third country, except that the foregoing provisions of this paragraph shall not apply to any advantage in respect of internal taxes, fees or charges which is or may hereafter be granted to the nationals, residents, corporations or associations of any third country, either (a) pursuant to legislation extending the same advantage to all countries, or to the nationals, residents, corporations or associations thereof, on the basis of reciprocity, or (b) in a treaty or other agreement concluded with such third country for the avoidance of double taxation or the mutual protection of revenue.

Article XI

Commercial travelers representing manufacturers, merchants and traders domiciled in the territories of either High Contracting Party shall, on their entry into and sojourn in the territories of the other High Contracting Party and on their departure therefrom, be accorded treatment no less favorable than the treatment which is or may hereafter be accorded to commerical travelers of any third country in respect of customs and other privileges and, subject to the exception in paragraph 2 of Article X, in respect of all taxes and charges of whatever denomination applicable to them or to their samples.

Article XII

1. The nationals of either High Contracting Party shall, throughout the territories of the other High Contracting Party, be permitted to exercise liberty of conscience and freedom of worship and to establish schools for the education of their children, and they may, whether individually, collectively or in religious or educational corporations or associations, and without annoyance or molestation of any kind by reason of their religious belief or otherwise, conduct religious services and give religious or other instruction, either within their own houses or within any other appropriate buildings, provided that their religious and educational activities are conducted in conformity with the laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities.

2. The nationals of either High Contracting Party shall be permitted within the territories of the other High Contracting Party to bury their dead according to their religious customs in suitable and convenient places which are or may hereafter be established and maintained for the purpose, subject to the mortuary and sanitary laws and regulations, if any, which are or may hereafter be enforced by the duly constituted authorities.

3. Places of worship and cemeteries shall be held in respect and free from disturbance or profanation.

Article XIII

With respect to that form of protection granted within the territories of either High Contracting Party by the applicable laws establishing civil liability for bodily injuries or for death, and giving to relatives or heirs or dependents of an injured person a right of action or a pecuniary compensation, such relatives or heirs or dependents of the injured person, himself a national of either High Contracting Party and injured within any of the territories of the other High Contracting Party, shall, regardless of their alienage or residence outside of the territory where the injury occurred, enjoy the same rights and privileges as are or may hereafter be granted under like conditions to nationals of such other High Contracting Party.

Article XIV

1. The nationals of each High Contracting Party shall be exempt from compulsory military or naval training or service under the jurisdiction of the other High Contracting Party, and shall also be exempt from all contributions in money or in kind imposed in lieu thereof.

2. During any period of time when both of the High Contracting Parties are, through military or naval action in connection with which there is general compulsory military or naval service, (a) enforcing measures against the same third country or countries in pursuance of obligations for the maintenance of international peace and security, or (b) concurrently conducting hostilities against the same third country or countries, provisions of paragraph 1 of this Article shall not apply. However, in such an event the nationals of either High Contracting Party in the territory of the other High Contracting Party, who have not declared their intention to acquire the nationality of such other High Contracting Party, shall be exempt from military or naval service under the jurisdiction of such other High Contracting Party if within a reasonable time prior to their induction for such service they elect, in lieu of such service, to enter the military or naval service of the High Contracting Party of which they are nationals. In any such situation the High Contracting Parties will make the necessary arrangements for giving effect to the provisions of this paragraph.

3. Nothing in this Article shall be construed to affect the right of either High Contracting Party to debar from acquiring its citizenship any person who seeks and obtains exemption in accordance with the provisions of paragraph 1 or 2 of this Article.

Article XV

The High Contracting Parties reaffirm their adherence to a program of purposes and policies, open to participation by all other countries of like mind, designed to bring about an expansion of international trade on a broad basis, and directed to the elimination of all forms of discriminatory treatment and monopolistic restrictions in international commerce.

Article XVI

1. In all matters relating to (a) customs duties and subsidiary charges of every kind imposed on imports or exports and in the method of levying such duties and charges, (b) the rules, formalities, and charges imposed in connection with the clearing of articles through the customs, and (c) the taxation, sale, distribution or use within the country of imported articles and of articles intended for exportation, each High Contracting Party shall accord to articles the growth, produce or manufacture of the other High Contracting Party, from whatever place arriving, or to articles destined for exportation to the territories of such other High Contracting Party, by whatever route, treatment no less favorable than the treatment which is or may hereafter be accorded to like articles the growth, produce or manufacture of, or destined for, any third country. If the Government of either High Contracting Party requires documentary proof of origin of imported articles, the requirements imposed therefor shall be reasonable and shall not be such as to constitute an unnecessary hindrance to indirect trade.

2. With respect to the matters referred to in paragraph 1 of this Article, the nationals, corporations and associations, vessels and cargoes of either High Contracting Party shall be accorded, within the territories of the other High Contracting Party, treatment no less favorable than is or may hereafter be accorded to the nationals, corporations and association, vessels and cargoes of any third country. In all matters relating to (a) customs duties and subsidiary charges of every kind imposed on imports or exports and the method of levying such duties and charges, (b) the rules, formalities, and charges imposed in connection with the clearing of articles through the customs, and (c) taxation within the country of imported articles and of articles intended for exportation, the nationals, corporations and associations of either High Contracting Party shall be accorded, within the territories of the other High Contracting Party, treatment no less favorable than the treatment which is or may hereafter be accorded to the nationals, corporations and associations of such other High Contracting Party.

3. No prohibition or restriction of any kind shall be imposed by either High Contracting Party on the importation, sale, distribution or use of any article the growth, produce or manufacture of the other High Contracting Party, or on the exportation of any article destined for the territories of the other High Contracting Party, unless the importation, sale, distribution or use of the like article the growth, produce or manufacture of all third countries, or the exportation of the like article to all third countries, respectively, is similarly prohibited or restricted.

4. If the Government of either High Contracting Party imposes any quantitative regulation on the importation or exportation of any article, or on the sale, distribution or use of any imported article, it shall as a customary practice give public notice of the total quantity or value of such article permitted to be imported, exported, sold, distributed or used during a specified period, and of any change in such quantity or value. Futhermore, if either High Contracting Party allots a share of such total quantity or value to any third country, it shall allot to the other High Contracting Party, with respect to any article in which the latter has an important interest, unless it is mutually agreed to dispense with such an allotment, a share based upon the proportion of the total quantity or value supplied by, or in the case of exports a share based upon the proportion exported to, the territories of such other High Contracting Party during a representative period, account being taken in so far as practicable of any special factors which may have affected or may be affecting the trade in that article. The provisions of this paragraph relating to imported articles shall also apply in respect of limitations upon the quantity or value of any article permitted to be imported free of duty or tax, or at a specified rate of duty or tax.

Article XVII

1. Laws, regulations of administrative authorities and decisions of administrative or judicial authorities of each High Contracting Party pertaining to the classification of articles for customs purposes or to rates of duty shall be published promptly in such a manner as to enable traders to become acquainted with them. Such laws, regulations and decisions shall be applied uniformly at all ports of the respective High Contracting Parties except as is or may hereafter be otherwise specifically provided for in statutes of either High Contracting Party with respect to the importation of articles into its insular territories and possessions.

2. No administrative ruling by the Government of either High Contracting Party effecting advances in rates of duties or charges applicable under an established and uniform practice to imports originating in the territories of the other High Contracting Party, or imposing any new requirement with respect to such importations, shall as a general rule be applied to articles the growth, produce or manufacture of the other High Contracting Party already en route at the time of publication thereof in accordance with paragraph 1; provided that, if either High Contracting Party customarily exempts from such new or increased obligations articles entered for consumption or withdrawn from warehouse for consumption during a period of thirty days after the date of such publication, such practice shall be considered full compliance with this paragraph. The provisions of this paragraph shall not apply to administrative orders imposing antidumping duties, or relating to regulations for the protection of human, animal or plant life or health, or relating to public safety, or giving effect to judicial decisions.

3. Each High Contracting Party shall provide some procedure, administrative, judicial or otherwise, under which the nationals, corporations and associations of the other High Contracting Party, and importers of articles the growth, produce or manufacture of such other High Contracting Party, shall be permitted to appeal against fines and penalties imposed upon them by the customs authorities, confiscations by such authorities and rulings of such authorities on questions of customs classification and of valuation of articles for customs purposes. Greater than nominal penalties shall not be imposed by either High Contracting Party in connection with any importation by the nationals, corporations or associations of the other High Contracting Party, or in connection with the importation of articles the growth, produce or manufacture of such other High Contracting Party, because of errors in documentation which are obviously clerical in origin or with regard to which good faith can be established.

4. The Government of each High Contracting Party will accord sympathetic consideration to such representations as

the Government of the other High Contracting Party may make with respect to the operation or administration of import or export prohibitions or restrictions, quantitative regulations, customs regulations or formalities, or sanitary laws or regulations for the protection of human, animal or plant life or health.

Article XVIII

1. Articles the growth, produce or manufacture of either High Contracting Party, imported into the territories of the other High Contracting Party, shall be accorded treatment with respect to all matters affecting internal taxation no less favorable than the treatment which is or may hereafter be accorded to like articles the growth, produce or manufacture of such other High Contracting Party.

2. Articles grown, produced or manufactured within the territories of either High Contracting Party in whole or in part by nationals, corporations and associations of the other High Contracting Party, or by corporations and associations organized or participated in by such nationals, corporations and associations, shall be accorded within such territories treatment with respect to all matters affecting internal taxation, or exportation from such territories, no less favorable than the treatment which is or may hereafter be accorded to like articles grown, produced or manufactured therein in whole or in part by nationals, corporations and associations of the High Contracting Party within the territories of which the articles are grown, produced or manufactured, or by corporations and associations organized or participated in by such nationals, corporations and associations. The articles specified in the preceding sentence shall not in any case receive treatment less favorable than the treatment which is or may hereafter be accorded to like articles grown, produced or manufactured in whole or in part by nationals, corporations and associations of any third country, or by corporations and associations organized or participated in by such nationals, corporations and associations.

Article XIX

1. If the Government of either High Contracting Party establishes or maintains any form of control of the means of international payment or of international financial transactions, it shall accord fair and equitable treatment to the nationals, corporations and associations and commerce of the other High Contracting Party with respect to all aspects of such control.

2. The Government establishing or maintaining such control shall impose no prohibition, restriction or delay on the transfer of payment for any article the growth, produce or manufacture of the other High Contracting Party which is not imposed on the transfer of payment for the like article the growth, produce or manufacture of any third country. With respect to the rates of exchange and with respect to taxes or charges on exchange transactions, articles the growth, produce or manufacture of the other High Contracting Party shall be accorded treatment no less favorable than the treatment which is or may hereafter be accorded to like articles the growth, produce or manufacture of any third country. The provisions of this paragraph shall also extend to the application of such control to payments necessary for or incidental to the importation of articles the growth, produce or manufacture of the other High Contracting Party. In general, any such control shall be administered so as not to influence to the disadvantage of the other High Contracting Party the competitive relationships between articles the growth, produce or manufacture of such other High Contracting Party and like articles the growth, produce or manufacture of any third country.

3. In all that relates to the transfer of profits, dividends, interest, payments for imported articles, and of other funds, to loans and to any other international financial transactions, either between the territories of the two High Contracting Parties or between the territories of the High Contracting Party the Government of which establishes or maintains the control referred to in paragraph 1 of this Article and the territories of any third country, the Government establishing or maintaining the control shall accord to the nationals, corporations and associations of the other High Contracting Party treatment no less favorable than the treatment which is or may hereafter be accorded to its own nationals, corporations and associations, and no less favorable than the treatment which is or may hereafter be accorded to the nationals, corporations and associations of any third country which make or receive like transfers and loans, and which are parties to like transactions, between the

territories of the same two countries. Moreover, the Government establishing or maintaining such control shall accord to the nationals, corporations and associations of the other High Contracting Party, in all that relates to any such transfers, loans and other transactions between the territories of the two High Contracting Parties, treatment no less favorable than the treatment which is or may hereafter be accorded to the nationals, corporations and associations of any third country which make or receive like transfers and loans, and which are parties to like transactions, between the territories of the High Contracting Party the Government of which establishes or maintains the control and the territories of such third country. The treatment accorded by this paragraph shall apply to the rates of exchange and to any prohibition, restriction, delay tax or other charge on the transfers, loans and other transactions covered by this paragraph; and such treatment shall apply whether the transfers, loans and other transactions take place directly or through an intermediary or intermediaries in a country or countries not parties to this Treaty. In general, any such control shall be administered so as not to influence to the disadvantage of the other High Contracting Party the competitive relationships between the nationals, corporations and associations of such other High Contracting Party and the nationals, corporations and associations of any third country.

Article XX

1. If the Government of either High High Contracting Party establishes or maintains a monopoly or public agency for the importation, exportation, purchase, sale, distribution or production of any article, or grants exclusive privileges to any agency to import, export, purchase, sell, distribute or produce any article, such monopoly or agency shall accord to the commerce of the other High Contracting Party fair and equitable treatment in respect of its purchases or articles the growth, produce or manufacture of foreign countries and its sales of articles destined for foreign countries. To this end the monopoly or agency shall, in making such purposes or sales of any article, be influenced solely by considerations, such as price, quality, marketability, transportation and terms of purchase or sale, which would ordinarily be taken into account by a private commerical enterprise interested solely in purchasing or selling such article on the most favorable terms. If the Government of either High Contracting Party establishes or maintains a monopoly or agency for the sale of any service or grants exclusive privileges to any agency to sell any service, such monopoly or agency shall accord fair and equitable treatment to the other High Contracting Party and to the nationals, corporations, associations and commerce thereof in respect of transactions involving such services as compared with the treatment which is or may hereafter be accorded to any third country and to the nationals, corporations, associations and commerce thereof.

2 The Government of each High Contracting Party, in the awarding of concessions and other contracts, and in the purchasing of supplies, shall accord fair and equitable treatment to the nationals, corporations and associations and to the commerce of the other High Contracting Party as compared with the treatment which is or may hereafter be accorded to the nationals, corporations and associations and to the commerce of any third country.

Article XXI

1. Between the territories of the High Contracting Parties there shall be freedom of commerce and navigation.

2. Vessels under the flag of either High Contracting Party, and carrying the papers required by its national law in proof of nationality, shall be deemed to be vessels of that High Contracting Party both within the ports, places and waters of the other High Contracting Party and on the high seas. As used in this Treaty, "vessels" shall be construed to include all vessels of either High Contracting Party whether privately owned or operated or publicly owned or operated. However, the provisions of this Treaty other than this paragraph and paragraph 5 of Article XXII shall not be construed to accord rights to vessels of war or fishing vessels of the other High Contracting Party; nor shall they be construed to extend to the nationals, corporations and associations, vessels and cargoes of, or to articles the growth, produce or manufacture of, such other High Contracting Party any special privileges restricted to national fisheries or to the products thereof.

3. The vessels of either High Contracting Party shall have liberty, equally with the vessels of any third country, to come with their cargoes to all ports, places and waters of the other High Contracting Party which are or may hereafter be open to foreign commerce and navigation.

Article XXII

1. The vessels and cargoes of either High Contracting Party shall, within the ports, places and waters of the other High Contracting Party, in all respects be accorded treatment no less favorable than the treatment accorded to the vessels and cargoes of such other High Contracting Party, irrespective of the port of departure or the port of destination of the vessel, and irrespective of the origin or the destination of the cargo.

2. No duties of tonnage, harbor, pilotage, lighthouse, quarantine, or other similar or corresponding duties or charges, of whatever kind or denomination, levied in the name or for the profit of the government, public functionaries, private individuals, corporations or establishments of any kind, shall be imposed in the ports, places and waters of either High Contracting Party upon the vessels of the other High Contracting Party, which shall not equally and under the same conditions be imposed upon national vessels.

3. No charges upon passengers, passenger fares or tickets, freight moneys paid or to be paid, bills of lading, contracts of insurance or re-insurance, no conditions relating to the employment of ship brokers, of whatever nationality, and no other charges or conditions of any kind, shall be imposed in a way tending to accord any advantage to vessels of either High Contracting Party as compared with the vessels of the other High Contracting Party.

4. Within the ports, places and waters of each High Contracting Party which are or may hereafter be open to foreign commerce and navigation, competent pilots shall be made available to take the vessels of the other High Contracting Party into and out of such ports, places and waters.

5. If a vessel of either High Contracting Party shall be forced by stress of weather or by reason of any other distress to take refuge in any of the ports, places or waters of the other High Contracting Party not open to foreign commerce and navigation, it shall receive friendly treatment and assistance and such supplies and materials for repair as may be necessary and available. This paragraph shall apply to vessels of war and fishing vessels, as well as to vessels as defined in paragraph 2 of Article XXI.

6. In no case shall the treatment accorded to the vessels and cargoes of either High Contracting Party with respect to the matters referred to in this Article be less favorable than the treatment which is or may hereafter be accorded to the vessels and cargoes of any third country.

Article XXIII

1. It shall be permissible, in the vessels of either High Contracting Party, to import into the territories of the other High Contracting Party, or to export therefrom, all articles which it is or may hereafter be permissible to import into such territories, or to export therefrom, in the vessels of such other High Contracting Party, without being liable to any other or higher duties or charges whatsoever than if such articles were imported or exported in vessels of such other High Contracting Party.

2. Bounties, drawbacks and other privileges of this nature of whatever kind or denomination which are or may hereafter be allowed, in the territories of either High Contracting Party, on articles imported or exported in national vessels shall also and in like manner be allowed on articles imported or exported in vessels of the other High Contracting Party.

Article XXIV

1. Vessels of either High Contracting Party shall be permitted to discharge portions of cargoes at any ports, places or waters of the other High Contracting Party which are or may hereafter be open to foreign commerce and navigation, and to proceed with the remaining portions of such cargoes to any other such ports, places or waters, without paying other or higher tonnage dues or port charges in such cases than would be paid by national vessels in like circumstances, and they shall be permitted to load in like manner, in the same voyage outward, at the various ports, places and waters which are or may hereafter be open to foreign commerce and navigation. The vessels and cargoes of either High Contracting Party shall be accorded, with respect to the matters referred to in this paragraph, treatment in the ports, places and waters of the other High Contracting Party no less favorable than the treatment which is or may hereafter be accorded to the vessels and cargoes of any third country.

2. Should either High Contracting Party accord the rights of inland navigation or coasting trade to vessels of any third country such rights would similarly be accorded to the vessels of the other High Contracting Party. The coasting trade and inland navigation of each High Contracting Party are excepted from the requirement of national treatment and are to be regulated according to the laws of each High Contracting Party in relation thereto. It is agreed, however, that vessels of either High Contracting Party shall enjoy within the territory of the other High Contracting Party with respect to the coasting trade and inland navigation treatment as favorable as the treatment accorded to the vessels of any third country. Trade between either High Contracting Party and its insular territories or possessions shall be considered coasting trade within the meaning of this paragraph.

Article XXV

There shall be freedom of transit through the territories of each High Contracting Party by the routes most convenient for international transit (a) for persons, whether or not they are nationals of the other High Contracting Party, together with their baggage, directly or indirectly coming from or going to the territories of such other High Contracting Party, (b) for persons who are nationals of the other High Contracting Party, together with their baggage, regardless of whether they are coming from or going to the territories of such other High Contracting Party, and (c) for articles directly or indirectly coming from or going to the territories of such other High Contracting Party. Such persons, baggage and articles in transit shall not be subject to any transit duty, to any unnecessary delays or restrictions, or to any discrimination in respect of charges, facilities or any other matter; and all charges and regulations prescribed in respect of such persons, baggage or articles shall be reasonable, having regard to the conditions of the traffic. Except as may hereafter be agreed by the High Contracting Parties with respect to non-stop flight by aircraft, the Government of either High Contracting Party may require that such baggage and articles be entered at the proper customs house and that they be kept in customs custody whether or not under bond; but such baggage and articles shall be exempt from all customs duties or similar charges if such requirements for entry and retention in customs custody are complied with and if they are exported within one year and satisfactory evidence of such exportation is presented to the customs authorities. Such nationals, baggage, persons and articles shall be accorded treatment with respect to all charges, rules and formalities in connection with transit no less favorable than the treatment accorded to the nationals of any third country, together with their baggage, or to persons and articles coming from or going to the territories of any third country.

Article XXVI

1. Nothing in this Treaty shall be construed to prevent the adoption or enforcement of measures:

(a) relating to the importation or exportation of gold or silver;

(b) relating to the traffic in arms, ammunition and implements of war, and, in exceptional circumstances, all other military supplies;

(c) relating to the exportation of national treasures of historical, archaeological or artistic value;

(d) necessary in pursuance of obligations for the maintenance of international peace and security, or for the protection of the essential interests of the country in time of national emergency; or

(e) imposing exchange restrictions in conformity with the Articles of Agreement of the International Monetary Fund, signed December 27, 1945, so long as the High Contracting Party imposing the restrictions is a member of the Fund, provided that neither High Contracting Party shall utilize its privileges under section 3 of Article VI or section 2 of Article XIV of such Agreement in such a manner as to impair any of the provisions of this Treaty.

2. Subject to the requirement that, under like circumstances and conditions, there shall be no arbitrary discrimination by either High Contracting Party against the other High Contracting Party or against the nationals, corporations, associations, vessels or commerce thereof, in favor of any third country or the nationals, corporations, associations, vessels or commerce thereof, the provisions of this Treaty shall not extend to prohibitions or restrictions:

(a) imposed on moral or humanitarian grounds;

(b) designed to protect human, animal, or plant life or health;

(c) relating to prison-made goods; or

(d) relating to the enforcement of police or revenue laws.

3. The provisions of this Treaty according treatment no less favorable than the treatment accorded to any third country shall not apply to:

(a) advantages which are or may hereafter be accorded to adjacent countries in order to facilitate frontier traffic;

(b) advantages accorded by virtue of a customs union of which either High Contracting Party may, after consultation with the Government of the other High Contracting Party, become a member so long as such advantages are not extended to any country which is not a member of such customs union; or

(c) advantages accorded to third countries pursuant to a multi-lateral convention of general applicability, including a trade area of substantial size, having as its objective the liberalization and promotion of international trade or other international economic intercourse, and open to adoption by all the United Nations.

4. The stipulations of this Treaty do not extend to advantages now accorded or which may hereafter be accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another, to the Republic of Cuba, or to the Republic of the Philippines. The provisions of this paragraph shall continue to apply in respect of any advantages which are or may hereafter be accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another, irrespective of any change which may take place in the political status of any of the territories or possessions of the United States of America.

5. The provisions of this Treaty shall not be construed to accord any rights or privileges to corporations and associations engaged in political activities or with respect to the organization of or participation in such corporations and associations. Moreover, each High Contracting Party reserves the right to deny any of the rights and privileges accorded by this Treaty to any corporation or association created or organized under the laws and regulations of the other High Contracting Party which is directly or indirectly owned or controlled, through majority stock ownership or otherwise, by nationals, corporations or associations of any third country or countries.

Article XXVII

Subject to any limitation or exception provided in this Treaty or hereafter agreed upon between the Governments of the High Contracting Parties, the territories of the High Contracting Parties to which the provisions of this Treaty extend shall be understood to comprise all areas of land and water under the sovereignty or authority of either High Contracting Party, except the Panama Canal Zone.

Article XXVIII

Any dispute between the Governments of the two High Contracting Parties as to the interpretation or the application of this Treaty, which the High Contracting Parties cannot satisfactorily adjust by diplomacy, shall be submitted to the International Court of Justice unless the High Contracting Parties shall agree to settlement by some other pacific means.

Article XXIX

1. This Treaty shall, upon its entry into force, supersede provisions of the following treaties between the Republic of China and the United States of America in so far as such provisions have not previously been terminated:

(a) Treaty of Peace, Amity and Commerce, signed at Wanghia, July 3, 1844;

(b) Treaty of Peace, Amity and Commerce, signed at Tientsin, June 18, 1858;

(c) Treaty Establishing Trade Regulations and Tariff, signed at Shanghai, November 8, 1858;

(d) Treaty of Trade, Consuls and Emigration, signed at Washington, July, 28, 1868;

(e) Immigration Treaty, signed at Peking, November 17, 1880;

(f) Treaty as to Commerical Intercourse and Judicial Procedure, signed at Peking, November 17, 1880;

(g) Treaty as to Commercial Relations, signed at Shanghai, October 8, 1903;

(h) Treaty Establishing Rates of Duty on Imports Into China, signed at Washington, October 20, 1920; and

(i) Treaty Regulating Tariff Relations, signed at Peiping, July 25, 1928.

2. Nothing in this Treaty shall be construed to limit or restrict in any way the rights, privileges and advantages accorded by the Treaty for the Relinquishment of Extraterritorial Rights in

China and the Regulation Related Matters and accompanying exchange of notes between the Republic of China and the United States of America signed at Washingtoon on January 11, 1943.

Article XXX

1. This Treaty shall be ratified, and the ratifications thereof shall be exchanged at Nanking as soon as possible.

2. This Treaty shall enter into force on the day of the exchange of ratifications, and shall continue in force for a period of five years from that day.

3. Unless one year before the expiration of the aforsesaid period of five years the Government of either High Contracting Party shall have given notice to the Government of the other High Contracting Party of intention to terminate this Treaty upon the expiration of the aforsesaid period, the Treaty shall continue in force thereafter until one year from the date on which notice of intention to terminate it shall have been given by either High Contracting Party.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed this Treaty and have affixed hereunto their seals.

DONE in duplicate, in the Chinese and English languages, both equally authentic, at Nanking, this fourth day of the eleventh month of the thirty-fifth year of the Republic of China, corresponding to the fourth day of November, one thousand nine hundred and forty-six.

Protocol

At the moment of signing this day the Treaty of Friendship, Commerce and Navigation between the Republic of China and the United States of America, the undersigned plenipotentiaries have agreed upon the present Protocol which shall have the same validity as if provisions were inserted in the text of the Treaty to which it refers:

1. The provisions of Article II, paragraph 1, shall not be deemed to affect the right of either High Contracting Party to enforce statutes prescribing reasonable requirements concerning the registration of aliens within its territories, it being understood that identity cards which are now or may hereafter be required by the duly constituted authorities of such High Contracting Party shall be valid throughout the entire extent of the territories of that High Contracting Party, and that treatment accorded to nationals of such other High Contracting Party with respect to such requirements shall not be less favorable than that accorded to nationals of any third country.

2. (a) Without prejudice to rights given elsewhere in the Treaty, Article II, paragraph 2, refers only to rights and privileges to be enjoyed by nationals of either High Contracting Party as individuals, and shall not be construed to imply the right of such nationals to form corporations or associations on the same terms as nationals of the other High Contracting Party.

(b) The words "not forbidden by the laws and regulations enforced by the duly constituted authorities," as used in Article II, paragraph 2, shall be construed to mean such prohibitory laws and regulations as are applicable alike to nationals of the country and to nationals of the other High Contracting Party.

3. Rights in respect of "exploration for and exploitation of" mineral resources as referred to in Article V shall be construed to mean the rights to conduct mining enterprises and operations, as distinct from the ownership by nationals, corporations or associations of one High Contracting Party of interests in corporations or associations of the other High Contracting Party which are or may be engaged in mining operations in the territory of such other High Contracting Party.

4. The provisions of Article VIII, paragraph 1, shall not be construed to limit in any way rights or privileges accorded in other provisions of the Treaty with respect to real or other immovable property.

5. (a) The word "unauthorized," as used in Article IX, shall be construed to mean unauthorized by the owner of the industrial, literary or artistic property in any given case.

(b) The provision in the first sentence and in the second sentence of Article IX, that "effective remedy therefor shall be provided by civil action" shall not be construed to preclude remedies by other than civil action if such remedies are provided for by laws and regulations which are or may hereafter be enforced by the duly constituted authorities.

(c) So long as the laws and regulations of either High Contracting Party do not accord to its own nationals, corporations and associations protection against translations, the provisions of the third sentence of Article IX shall not be construed to obligate that High Contracting Party to accord to nationals, corporations or associations of the other High Contracting Party protection against translations.

6. Without prejudice to rights which are otherwise enjoyed or may hereafter be enjoyed, the word "grown" as used in Article XVIII, paragraph 2, shall not be construed to confer any right upon nationals, corporations or associations of either High Contracting Party to engage in agriculture within the territories of the other High Contracting Party.

7. The words "international financial transactions," as used in Article XIX, paragraph 3, shall be construed to include importation or exportation of paper money and governmental securities, it being understood that each High Contracting Party retains the right to adopt or enforce measures relating to such importation or exportation, provided the measures do not discriminate against nationals, corporations and associations of the other High Contracting Party in a manner contrary to the provisions of that paragraph.

8. The concluding sentence of paragraph 1 of Article XX shall not be construed to apply to postal services.

9. The words "gold or silver," as used in Article XXVI, paragraph 1, shall be construed to include bullion and coin.

10. Advantages which are or may hereafter be accorded by the United States of America, its territories or possessions or the Panama Canal Zone to one another or to the Republic of Cuba or to the Republic of the Philippines as stipulated in Article XXVI, paragraph 4, whenever extended to any other country, shall similarly be extended to the Republic of China.

Wang Shih-Chieh
Wang Hua-Cheng
J. Leighton Stuart
Robert Lacy Symth

Marshall Mission—Following Major-General Patrick J. Hurley's resignation as Ambassador to China on November 27, 1945, President Truman appointed General Marshall as his special envoy to China to mediate between the Chinese Government and the Chinese Communists and to bring them together in a coalition government. He arrived in Chungking on December 22, 1945. His mission ended on January 8, 1947 when he left Nanking for the United States. By January 29, 1947, the U. S. Government announced the abandonment of its effort at mediation.

Dr. Stuart Nominated Ambassador—Dr. John Leighton Stuart, president of Yenching University in Peiping, was nominated on July 9, 1946 by President Truman as U. S. Ambassador to China. He presented his credentials to President Chiang on July 19, 1946.

General Wedemeyer's Visit—On July 11, 1947, President Truman appointed Lieutenant-General Albert C. Wedemeyer head of a fact-finding mission to China and Korea. After his arrival in Nanking on July 22, 1947, General Wedemeyer proceeded to various Chinese cities for observation. He left Nanking on August 24, 1947 after completing his work in China.

At the beginning of his mission, General Wedemeyer remarked that an analysis of events transpiring in China during the decade 1927-37 indicated that many constructive steps had been undertaken by the Chinese Government in the political, economic, educational and social spheres, which would have made China a strong and unified country but for the interruption of the war. In order to facilitate the work of his mission, he wished that the government could furnish him with a statement setting forth the reconstruction measures after V-J Day. A statement outlining China's postwar difficulties, reconstruction programs, and work was duly prepared by the Chinese Government and handed to General Wedemeyer on August 16, 1947.

A General Statement of the Work and Policy of The Chinese Government

August 16, 1947

In a statement sent to the Chinese Government shortly after his arrival in China, in August 1947, General A. C. Wedemeyer, Special Representative of the President of the United States, remarked that analysis of events transpiring in China during the decade 1927-1937 indicated that many constructive steps had been undertaken by the Chinese Government in the political, economic, educational and social spheres, which would have made China a strong and unified country but for the interruption of the war. In order to facilitate the work of his mission, he wished that the Government could furnish some statement setting forth the measures it had taken since V-J Day to resume its efforts towards establishing a stable political and economic structure in China. Consequently, the Chinese Government

handed to General Wedemeyer on August 16, 1947 the following statement:

I

On V-J Day, the Chinese Government found itself confronted with the following problems:

1. The question of the Chinese Communists, who were maintaining a regular armed force of 310,000 men in addition to a larger number of their so-called "militia." The presence of a large number of yet unsurrendered and undisarmed Japanese and puppet government troops in Manchuria was offering opportunities to the Chinese Communists to acquire more and better equipment.

2. An inflation, which had developed during the long years of war and was threatening the economic life of the nation.

3. The complete standstill of over 90 percent of China's railways and the acute shortage of inland shipping, which made the work of repatriation and of restoring order in areas formerly held by Japanese or puppet troops extremely difficult, and rendered it impossible for many pre-war industries to revive even though the plants were partially recovered.

4. The need for the rehabilitation of rural economy after eight years of neglect and destruction during enemy occupation resulting in widespread shortage of farm labor, livestock and fertilizers and in consequence critical reduction of agricultural production. The total annual production of cotton, for example, was reduced to about 5,320,000 piculs or *shih tan*, one-third of the 1937 level, which was 16,180,000 piculs or *shih tan*.

5. There were in China proper more than 1,000,000 Japanese soldiers and approximately an equal number in Manchuria; 600,000 puppet government troops scattered in various parts of China proper and another 330,000 of them in Manchuria; and as a result of Soviet participation in the Far Eastern war, a large Soviet force estimated at 600,000 to 700,000 men deployed in different parts of Manchuria.

6. And, last but by no means the least, the question of the fulfillment of commitments made by the Government, before and during the war, of the convocation of the National Assembly, the drafting and adoption of a national constitution, the return by the Kuomintang of the responsibility of government to the people, the termination of one-party rule, and the lifting of censorship.

These were the most difficult problems that the Government had to deal with all at once on V-J Day. The weight of responsibility that so suddenly fell on the Government was far greater than the Government machine then existing could adequately cope with. Not only were the tasks in themselves heavy and complicated but they were also in many cases new to the experience of the Government.

II

In the repatriation of Japanese soldiers and civilians and in the timely dispatch of Chinese troops by air and by sea to many areas to take over from the enemy, the Chinese Government was substantially aided by the U. S. forces in China. Credit must also be given to UNRRA and CNRRA for their contribution toward the solution of many problems in connection with the repatriation of displaced persons and such relief and rehabilitation work as could be undertaken immediately. Meanwhile, the Government itself was tackling all the problems it could in the circumstances. (1) It set about reorganizing the army and reducing the national budget. (2) An immediate attempt was made folowing V-J Day to restore communication systems, such as railways, highways, waterways, public utility services and conservancy works. (3) Mines and iron works (including a number of those the equipment of which had been largely removed by the Soviet Army from Manchuria or destroyed by the Communists) were re-opened, and textile and other precarious industries were salvaged. (4) Efforts were made afresh to lay down the foundations for local self-government, such as the re-organizing and restaffing of municipal and *hsien* offices, the organization of *pao-chia* system in villages and towns, and the rehabilitation of schools of various grades. (5) Wherever practicable, measures were also taken to revitalize rural economy. In the case of cotton, the extension work carried out by the Government in the past one-and-a-half years is now expected to result in a production of 11,000,000 piculs or *shih tan* this year, a 100 percent increase over the production for the year of the V-J Day. Each of these jobs involved considerable administration, funds and personnel.

When one assesses the work of the Government in this period one should bear in mind the fact that social institutions in China were not yet fully adapted to modern conditions, that a large portion of her territory was under enemy occupation for many years, and that the new economic foundations that had been prepared since 1927 were impaired by the enemy. The immensity and complexity of the task of recovery that followed in the wake of victory must be taken into account.

There can be no doubt that the Government would have achieved greater results and China's politico-economic position would be brighter if the greater part of the Government's constructive effort had not been thwarted at each turn by the non-settlement of the Communist issue and the continuance of the wartime legacy —inflation.

The infiltration of the Chinese Communists into Manchuria during and following the Soviet occupation constituted a new factor in the Communist impasse after V-J Day. The armed opposition of the Communists was the greatest single destructive force against all the efforts of the Government in carrying out rehabilitation and in restoring law and order, particularly in areas formerly held by the Japanese. When every possible effort was being made, for instance, to restore the main communication lines, mobile Communist squads were actively engaged in demolition work, disrupting newly repaired railways, cutting telegraph and telephone lines, and causing havoc in the countryside.

As a result of the inability on the part of the Chinese Government to disarm and accept surrender from the large number of Japanese and puppet government troops in Manchuria, the attitude of the Communists toward the Government became increasingly challenging and uncompromising. After the meeting of the National Assembly last November-December, the Communists openly denounced the adopted constitution. It was then clear that all hopes of a political settlement had gone. For by that time the Communists had decided on the immediate launching of a large-scale military offensive. No one could feel more profoundly disappointed than the Government itself at such a turn of events, at a time when so much reconstruction work called for its undivided attention and immediate action.

While the Communist issue remained unsettled, the plan for army reorganization could not materilize owing to Communist obstruction, thus hampering the reduction of the armed forces. As a result, a policy of retrenchment in national budget could not be put into effect, and inflation developed to such an extent as to threaten every fabric of our political and economic life. It led to the lowering of the efficiency of the Government administration and the undermining of the morale of the Army. The bulk of the civil servants were not paid enough to meet even the requirements of a bare subsistence. As a result, many government employees were forced to seek concurrent work in order to maintain their living, while others turned to more lucrative jobs.

To this day there has been no substantial improvement in the treatment of these long-suffering civil servants. However, considering the straitened circumstances of the civil servants in general, it is astonishing to find that the great bulk of them are carrying on without failing in their duties. The loyalty of these people recalls to mind the stolid endurance of the Chinese masses who bore the brunt of the long war against Japanese aggression.

III

Whatever one may say of the National Government in China, one cannot possibly accuse it of not having steadily pursued the preparatory work for a democratic government as laid down by their leader Dr. Sun Yat-sen. It has always been the unanimous opinion of the leaders of the Kuomintang that unless it could lead the nation into a multi-party and representative government, it could not be said to be in any way carrying out the principles on which the Party was founded. No one of any importance in the Party has ever questioned the need to terminate the so-called "period of political tutelage" as soon as the basic conditions stated by Dr. Sun have been fulfilled. In this respect, the Party, as a whole, never once swerved from its aim.

When Sino-Japanese hostilities broke out in 1937, the momentous decision to resist the enemy was accompanied by a nation-wide effort to preserve, as far as possible, the political and economic foundation that had been laid since 1927. Above all, the general opinion of the Party was such that the interlude of war should not nullify the preparatory work for representative government that had already been undertaken.

In 1938, the People's Political Council was founded to provide a broader basis of representative opinion for the guidance of government policy. Except for matters of military strategy and security, the Council served as a war-time organ of public opinion. Here, in the midst of a life-and-death struggle, the National Government decided to invite and accept open questions and criticisms and thus to promote representative government. This invaluable tradition has happily continued to this day. Although the 200 members

of the first People's Political Council were all elected by the Government from different professions and on the basis of geographical distribution, it was widely acknowledged to be a fairly representative body of the politically conscious sections of the country. Early in 1940, the second People's Political Council met with 240 members, of whom 90 were for the first time elected by the various Provisional Provincial and Municipal Councils, both on a regional and a professional basis. When the third People's Political Council met in 1942, 164 out of the total 240 members were elected by the Provincial and Municipal Councils. Today, the People's Political Council, in the last phase of its existence, has 362 members of whom 227 are elected by Provincial and Municipal Councils.

In September, 1938, two months after the first People's Political Council had its inaugural meeting, the National Government promulgated the Regulations of the Provisional Provincial Council. Today, such councils have been organized in nearly all the provinces. Here again, the percentage of elected councillors was increased after each meeting, so that in many provinces the members of such Councils are now entirely elected representatives. The municipal and *hsien* councils have also been conducted along the same lines. Thus, while the war was being fought and its priority acknowledged, no effort was spared in preserving the continuity of the effort towards the building up of basic democratic institutions and practices.

Shortly after V-J Day, press censorship was lifted in spite of the existence of a number of factors which might still have argued for its continuance. The National Assembly was convened in November and the draft Constitution adopted in December, 1946. The one-party rule had come to an end, although the Kuomintang was still by far the majority party in the Government. The Youth Party and the Democratic Socialist Party are now also represented in the Government.

No observer who is acquainted with Chinese events in the past can possibly fail to notice the existence today of a far greater body of public opinion than had ever existed before. This has come about since V-J Day as a result of the lifting of censorship, the convocation of the National Assembly, the presence of other parties in the Government, the emergence of a responsible cabinet in the new Executive Yuan, and above all, the effect of the periodic open discussions at the People's Political Council. The defence by the Government of its own policy and administration has in turn a stimulating effect on the growth of public opinion. It brings the Government closer to the people.

Since the Kuomintang gained power, it may have committed errors in regard to methods for the attainment of its political goal, but never has it for any period deviated from its general political direction. Exigencies of circumstances may at times have retarded the progress of its work, but in the twenty-odd years of its government, it has never been known to recede from a step once it has been taken.

IV

China's critics are prone to lose sight of the vastness of the country, the weaknesses of its traditional political, economic and social structures, and the complexity of the problems with which she is confronted. Their views and judgment are apt to be based too much on the situation of a given moment without due regard to the background.

It may be well for us to review briefly the period between 1927 and 1937, a period in which the strength of the Kuomintang was put, for the first time, to a real test, and in which the Government never had a continued peace for more than a few months. In 1926, when the Government was still in Canton, it embarked upon a punitive expedition against the war-lords. In 1927, when the National Government was established in Nanking, there were still war-lords to reckon with; there was internal political opposition to overcome from the Communists as well as remnants of the old regime who were ever ready to lend a hand in any plot against the Government; there was no street in Chungking where one could not find public opium dens, and such conditions prevailed in many other cities; extra-territorial rights continued and the attitude of the major powers, not excluding the United States, towards the new Government was one of critical skepticism. Since September 18, 1931, when the Japanese started open aggression, the Government had to resist the enemy on the one hand and on the other to suppress the armed rebellion of the Communists in the South.

But, in spite of all this, the Government, during this hard-pressed period of ten years, was able to embark upon a national constructive program. In 1937, it had completed almost 5,000 kilometers of railways, 100,000 kilometers of highways; it had built schools, parks, hospitals and civic centers in many cities; trebled the number of middle schools and doubled that of universities and colleges. The number of middle school and vocational school students totalled nearly 600,000 in 1936. It was estimated that illiteracy decreased by almost 20 percent in those ten years. Modern ordnance works begain in 1926, and at the time of the Lukouchiao Incident, China was already able to supply, from her own arsenals, practically all her infantry divisions with rifles, hand-grenades, machineguns, trench mortars and various accessories. A national anti-narcotic movement was launched during this period. The number of drug addicts rapidly decreased, and by the end of 1938, no public opium den was to be found in areas under the control of the Kuomintang Government.

When the full-fledged war broke out in 1937, Japanese financial experts predicted that China's finances would collapse within a few months of the war. During the eight years of war, China faced financial problems as enormous as they were complicated, but as a result of certain vigorous measures taken before the war, such as the adoption of a managed currency, concentration of gold and silver reserves, the reform of the taxation and banking systems, the Chinese Government was able to pass through the early, in fact the most critical, part of the war without any serious financial crisis.

In short, the period between the establishment of the National Government in Nanking in 1927 and the beginning of the war with Japan in 1937 was one of severe trial for the Kuomintang. However, the Government concentrated its effort on the twofold task of suppressing Communist rebellion and resisting Japanese aggression, and this gigantic undertaking received the single-minded support of the entire populace. Moreover, the relations between China and her neighbors then were not so complicated as they are now. The Government was therefore able to turn this difficult decade into a constructive period. Commerce and industries developed, while the people both in rural districts and cities were able to plan and look ahead. Industrial production reached in 1936 a level higher than in any previous year. A general feeling of prosperity and growth prevailed.

The complexity of the problems of today may be greater than those of the prewar years, but the dangers and difficulties which beset the present Government are reminiscent of those that confronted the nation during the early years of war (1937-1942) when China was forced to fight Japan single-handed. Whether the present Government, for which the Kuomintang is practically still responsible, will be able to overcome these fresh dangers and difficulties as it did in the war and pre-war periods remains to be seen.

It is, however, clear that there is no weakening of determination on the part of the present government and the Kuomintang to face the new challenge. As to the lines of policy with which the Government will meet the challenge, several things are uppermost in the mind of its leaders.

First, the Communists as an armed political party must be suppressed. No half-measures should be considered. The Government fully realizes that the success or failure of this fight against the Communist peril will not only decide its own fate, but also the life or death of China as a sovereign power. In fact the outcome of the struggle is bound up with the peace and security of the whole of the Far East. Second, the menace of inflation must be brought under control; there should be no further delay in initiating some effective program in this regard, because this is the very root of many political, economic and social ills. Third, in the provinces which are free from Communist menace, economic rehabilitation work must be intensified as far as government resources permit. This must be accompanied by necessary political reform in the local government. Last, the Government must pursue its political goal, the building up of a democratic constitutional government, without fear or hesitation. Whatever difficulties the present Communist rebellion and other political factors may cause to the accomplishment of this task, the Government must proceed to give effect to the constitution adopted at the end of last year. No ideal form of democracy is built in a day, and it is the consensus of opinion of the Government that the best way to achieve it is to start it as soon as you can.

Foreign Minister Wang's Visit to U. S.—Dr. Wang Shih-chieh, Minister of Foreign Affairs, visited President Truman and other high-ranking officials in Washington on September 30, 1947. Dr. Wang arrived in the United States early in September to attend the second session of the United Nations General Assembly.

Visit of Walter H. Judd—U. S. Congressman Walter H. Judd, member of the House Foreign Affairs Committee, arrived in Nanking on October 29, 1947. He was received by Premier Chang Chun.

Congressman Judd made several public announcements advocating American aid to China.

Chinese Technical Mission to U. S.—The Chinese Government sent a technical mission to Washington in mid-January, 1948, to exchange views with the American authorities on questions connected with proposed U. S. aid to China. The mission, composed of four persons, was headed by Tsuyee Pei, former Governor of the Central Bank of China. The China Aid Bill was signed by President Truman on April 3, 1948. (Mr. Pei returned to China at the end of April.)

III. Military

Transfer of Naval Vessels to China—Pursuant to a bill passed by the 79th Congress of the United States on July 16, 1946, providing the transfer of surplus naval vessels and equipment to China, an agreement was concluded between the two countries on December 8, 1947, stipulating that the total number of the vessels to be transferred should not exceed 217.

Purchase of Ammunition—In June, 1947, the Chinese Government purchased from the United States 130,000,000 rounds of ammunition at US$656,658.

Air Force Agreement—The agreement by which the United States was to undertake to supply China a total of 1,071 planes was reached between the two governments in September, 1945. The agreement was not published until February 28, 1948.

U. S. Congressional Mission—The United States Congressional mission studying armed forces installations in the Far East arrived in Nanking on October 10, 1947. The mission was headed by Congressman W. Stirling Cole, chairman of a sub-committee of the U. S. House of Representatives Armed Forces Committee, and included Charles R. Clason, William E. Hess, F. Edward Herbert, and Walter Norblad. Accompanying the party were Congressman Errett P. Scrivner, a member of the House Appropriations Committee and Major General Raymond W. Bliss, surgeon-general of the U. S. Army.

A.A.G. in China—The United States Army Advisory Group in China was established in Nanking in October, 1946, with Major-General John P. Lucas as the Commanding General. General Lucas held the post until March 1, 1948, when he was succeeded by Major-General David G. Barr. General Barr left China early in 1949.

IV. Economic and Financial

Loans and Credits—Since the expiration of the lend-lease program after the end of the war, the United States Government has extended to China loans and credits under different arrangements:

1. Cotton Credit from Export-Import Bank of Washington—This economic agreement between the two countries was signed on March 14, 1946, whereby both public and private industries in China were enabled to purchase against credit through the Bank of China, a total of US$33-million worth of cotton from the United States.

2. Railway Repair Materials Loan—On June 3, 1946, China and the United States signed an agreement for a credit of $16,650,000 against which the Export-Import Bank in Washington would advance funds to finance the purchase and exportation to China of materials for the repair of railways in China.

3. Civilian Pipe-Line Credit—This agreement was signed on June 14, 1946 in accordance with the provisions of the Sino-American wartime lend-lease agreement. The total amount involved was US$58-million.

4. Power Units Credit—On July 16, 1946, Chinese representatives in Washington signed with the Export-Import Bank for a credit of US$8,800,000 for the purchase of ten auxiliary power units, each of 5,000 kw. capacity.

5. Steamships Loan—A loan of US$2,600,000 for the purchase of 16 steamships from the United States was signed on August 5, 1946, between Chinese representatives and the Export-Import Bank of Washington.

Purchase of Surplus Property—By an agreement signed between China and the United States on August 31, 1946, China purchased from the United States surplus property at fraction costs. The price for the surplus property on western Pacific islands was US$500-million while for such property on the Chinese mainland the price was US$85-million.

Air Transport Agreement—On December 20, 1946, the United States and China signed the Air Transport Agreement. The Agreement was signed by Dr. Wang Shih-chieh, Minister of Foreign Affairs, and Dr. J. Leighton Stuart, U. S. Ambassador to China.

Under the agreement, United States airlines are accorded rights of transit and non-traffic stops in Chinese territory as well as the right to pick up and discharge international traffic and passengers, cargo and mail at Shanghai, Tientsin and Canton and such additional points as may be agreed upon from time to time. Chinese airlines will receive the same rights in the United States, with international traffic stops authorized at San Francisco, New York and Honolulu.

The air agreement is effective for a period of four years or until it is superseded by a general multilateral air transport convention. Either country, however, may terminate the agreement at one-year's notice. The agreement may be extended after four years by an exchange of diplomatic notes.

Direct Radio-Telephonic Communications Agreement—On July 1, 1947, an agreement was concluded between the Director-General of the Department of Posts and Telecommunications of the Ministry of Communications of China and the American Telephone and Telegraph Company for direct radio-telephonic communications between the two countries.

Sino-American Relief Agreement—An agreement to provide food and other relief assistance to the Chinese people under the American Foreign Relief Program was signed on October 27, 1947, between Dr. Liu Shih-shun, Political Vice-Minister of Foreign Affairs, and U. S. Ambassador J. Leighton Stuart. The total amount of the relief assistance was stipulated to be US$27-million.

US$18 Million Relief Appropriation—On December 19, 1947, the U. S. Senate Appropriation Committee approved the foreign relief bill authorizing the appropriation of US$570-million for aid to Austria, China, France and Italy. The China portion amounted to US$18-million.

V. Cultural and Educational

Agricultural Collaboration Commission—The China-United States Agricultural Collaboration Commission was organized in October, 1945, on the proposal of the Chinese Government. The commission of ten American and 13 Chinese agricultural experts began its work in June, 1946. They organized inspection teams to make studies in various parts of China.

Sino-American Cultural Cooperation—(1) During the period from 1945 to 1946, the United States Government had extended invitations to a number of Chinese authors, playwrights, and artists to visit America for a year. The program was intended for the promotion of closer cultural relationships between the two countries.

(2) As an encouragement to American students interested in China, the Chinese Government, beginning in 1944, established in a number of American universities scholarships for the study of Chinese language, history and culture. The appropriations for that purpose had been on the increase in subsequent years. By the end of 1947, the annual appropriation for the scholarships amounted to US$69,000.

Educational Foundation Agreement—On November 10, 1947, an agreement for spending US$20-million derived from the sale of American surplus property to China to aid educational institutions of the two countries was signed in Nanking between Dr. Wang Shih-chieh, Minister of Foreign Affairs, and Dr. John Leighton Stuart, U. S. Ambassador to China. (For further details of this agreement see Chapter on "International Cultural Cooperation.")

VI. China Aid Program

In his original proposal for assistance to China, President Truman on February 18, 1948, asked the U. S. Congress for US$570-million covering a 15-month period, from April 1, 1948 to June 30, 1949. Of this total, US$60-million was to be set aside for reconstruction projects while the bulk of US$510-million, was to finance the import into China of commodities vital to China's economy. In the words of President Truman, the purpose of the proposal was to "assist in retarding the current economic deterioration and thus give the Chinese Government a further opportunity to initiate the measures necessary to the establishment of more stable economic conditions."

On March 30, 1948, the U. S. Senate approved the China Aid Bill providing a US$463-million program of military and economic assistance to China covering one year as a part of the total foreign aid bill calling for the appropriation of US$6,098-million. The Senate approval showed a difference with the House's May 31 resolution of US$570-million for a period of 15 months. At a joint session of the Senate and the House on April 1, 1948, an agreement was reached to set the total at US$463-million, of which sum US$125-million was made available for military aid while the remainder was earmarked for the shipment of food, fertilizer and raw materials to China.

President Truman signed the Foreign Aid Bill on April 3, 1948.* The China aid program contains the following seven sections:

(1) The first section describes the title of the legislation.

(2) The second preamble section states that Congress recognizes the intimate

* By a resolution of the U. S. Congress, the date of expiration of the China Aid Program was extended to February 15, 1949.

economic and other relationships between the United States and China and finds that the existing situation in China endangers the establishment of a lasting peace, general welfare and national interest of the United States and the attainment of the objectives of the United Nations. It also declares that the United States policy is to encourage China and its people to exert common efforts for speedy internal peace and economic stability to maintain genuine independence and administrative integrity; and to strengthen the principles of individual liberty and free institutions through a program of assistance based on self-help and cooperation. Under the same section it is provided that no assistance shall impair the economic stability of the United States. It further declares that the assistance provided should all be dependent upon the cooperation by China and its people in furthering the program. Another qualification is that the assistance furnished shall not be construed as assumption by the United States of any responsibility for policies, acts or undertakings of China.

(3) The third section states that aid for China shall be controlled and administered under the general provisions of the European recovery program legislation wherever applicable.

(4) The fourth section authorizes US$338-million for economic aid to China for a one-year period, and a maximum of US$125-million as additional aid to China for one year through grants under terms as the President may determine. (Although the latter amount is not specified as military aid, the program makes it clear that this particular section was adopted from the Senate bill allowing the Chinese Government to use the aid for military purposes.)

(5) The fifth section requires a Sino-American agreement on the undertakings by China which the Secretary of State and the foreign aid administrator may deem necessary to carry out the program. (However, it was officially indicated that as soon as the bill was signed by the President the program to supply China with essential commodities could be launched when the Chinese Government indicated the intention to conclude the bilateral agreement.)

(6) The sixth section authorizes the Reconstruction and Finance Corporation to advance US$50-million to carry out the provisions pending Congressional appropriations.

(7) The seventh section makes available a maximum of ten percent of the US$338-million economic aid fund, in either United States fund or Chinese funds or both, for rural reconstruction in China under a joint commission by agreement between the two countries, consisting of two Americans appointed by the United States President and three Chinese citizens appointed by the President of China.

On the signing of the China air program by President Truman, Dr. Wang Shih-chieh, Minister of Foreign Affairs, made the following statement: (on April 4)

"The legislative enactment of the China Aid Program followed by executive approval is appreciated by the Chinese Government and people. The Act is a renewed expression of friendship and a recognition of the seriousness of the situation in China.

"While the terms of the Act remain to be implemented through cooperative measures of the two governments, I wish to stress at this juncture the uplifting effect of the passage of this Act on the morale of the Chinese people. The significance of the Act may not be measured by mere figures.

"My Government, however, accepts the program with a heavy heart as the final responsibility for its success or failure must necessarily rest with us. We are keenly aware of the manifold difficulty now confronting us. In the midst of a communist rebellion and a vicious inflation, conditions which might have forced others in similar circumstances into a different political course, we are nevertheless determined to initiate and maintain a democratic constitutional government. The realization of such a political program coupled with the carrying out of the economic measures as outlined in the Ten-Point Program of Premier Chang Chun will be a job which my Government will tackle with steadfastness and vigor. For this is the only road that leads to our national unity and reconstruction, and thereby to the restoration and preservation of peace and security in the Far East. In this task, I firmly believe that we shall never be alone."

On May 3, the Chinese and U. S. Governments by agreement published the full texts of notes exchanged on April 30 between General George C. Marshall, U. S. Secretary of State, and Dr. Wellington Koo, Chinese Ambassador to the United States.

On May 4, the Chinese Government set up the Council for U. S. Aid to China under the Executive Yuan for the purpose of coordinating the aid program. The Council is composed of a president, concurrently held by the President of the Executive Yuan, and 13 members including the heads of certain Ministries and Commissions, and the private individuals appointed by the Executive Yuan.

On May 5, Paul G. Hoffman, administrator of the Economic Cooperation Administration, announced that Roger D. Lapham, former mayor of San Francisco, had been appointed chief of the ECA's special mission to China. Before Mr. Lapham's arrival in China on June 8, Donald Gilpatric, head of the China Relief Mission, was the interim chief of the new China aid mission.

On June 3, the U. S. House Appropriations Committee, reversing its earlier approval of the full US$463-million for China aid, sliced US$63-million from the total, as in line with a general cut of 26.7 percent on aid funds for Europe and China. On June 14, the Senate Appropriations Committee voted US$60-million for aid to China, restoring US$60-million of the US$63-million reduced from the Chinese spending program by the House Committee.

The final Congressional decision was made at a joint conference of the Senate and the House on June 20, when the China aid fund was set at US$400-million, including the US$125-million for military aid.

On July 3, 1948, the Economic Aid Agreement between the United States and China was signed in Nanking between Dr. J. Leighton Stuart, U. S. Ambassador to China and Dr. Wang Shih-chieh, Minister of Foreign Affairs. Following is the text of the agreement:

Economic Aid Agreement Between The Republic of China and The United States of America

Preamble

The Government of the Republic of China and the Government of the United States of America:

Considering that it is the policy of the Government of the United States of America to extend economic assistance to the people and the Government of China in accordance with the provisions of the China Aid Act of 1948; and

Considering that it is the policy of the Government of China to undertake a vigorous program of self-help in order to create more stable economic conditions in China, and to improve commercial relations with other countries;

Have agreed as follows:

Article I

The Government of the United States of America undertakes to assist China, by making available to the Government of China or to any person, agency or organization designated by the latter Government such assistance as may be requested by it and approved by the Government of the United States of America. The Government of the United States of America will furnish this assistance under the provisions, and subject to all of the terms, limitations and conditions, of the China Aid Act of 1948 (other than Section 404 [B] thereof), acts amendatory and supplementary thereto and appropriation acts thereunder, and will make available to the Government of China only such commodities, services and other assistance as are authorized to be made available by such acts. The Goverment of the United States of America may suspend or terminate at any time the assistance under this Article.

Article II

1. In order to achieve the maximum improvement of economic conditions through the employment of assistance received from the Government of the United States of America, the Government of China undertakes

A. To adopt or maintain the measures necessary to ensure efficient and practical use of economic resources available to it, including

(1) such measures as may be necessary to ensure that the commodities and services obtained with assistance furnished under this Agreement are used for purposes consistent with this Agreement;

(2) to the extent practicable, measures to locate, identify and put into appropriate use in furtherance of its efforts to improve economic conditions, in China, assets, and earnings therefrom which belong to nationals of China and which are situated within the United States of America, its territories or possessions. Nothing in this clause imposes any obligation on the Government of the United States of America to assist in carrying out such measures or on the Government of China to dispose of such assets;

B. To promote the development of industrial and agricultural production on a sound economic basis;

C. To initiate and maintain financial, monetary, budgetary and administrative measures necessary for the creation of more stable currency conditions and for

the promotion of production and marketing of goods for domestic consumption and export; and

D. To cooperate with other countries in facilitating and stimulating an increasing interchange of goods and services with other countries and in reducing public and private barriers to trade with other countries.

2. The Government of China will take the measures which it deems appropriate to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which have the effect of interfering with the purposes and policies of this Agreement.

Article III

1. The Government of China undertakes to make all practicable efforts to improve commercial relations with other countries, including measures to improve the conditions affecting the carrying on of foreign trade by private enterprises in China.

2. The Government of China, in carrying out the provisions of paragraph 1 of this Article, will, among other measures, administer such import and exchange controls as are, or may be, made necessary by the exigencies of China's international balance of payments and the foreign exchange resources available to the Government of China, in a uniform, fair and equitable manner.

3. The Government of China and the Government of the United States of America will consult, upon the request of either, regarding any matter relating to the application of the provisions of this Article.

Article IV

1. All commodities provided by the Government of the United States of America pursuant to this Agreement shall be processed and distributed by commercial enterprises or by private or Chinese Government agencies, and in accordance with terms and conditions, agreed upon from time to time between the Government of China and the Government of the United States of America.

2. The Government of China, in consultation with representatives of the United States of America, will take all appropriate steps designed to achieve fair and equitable distribution within the areas under its control of commodities provided by the Government of the United States of America pursuant to this Agreement and of similar commodities imported into China with other funds or produced locally. To the extent that circumstances and supply availabilities permit, a distribution and price control system shall be inaugurated or maintained in urban centers of China with the intent of insuring that all classes of the population shall receive a fair share of imported or indigenously produced essential civilian supplies. In permitting expendable commodities made available under this Agreement to be utilized in support of the Chinese efforts to improve consumption and price controls, it is understood that the Government of the United States of America takes no responsibility for the success of these urban programs.

3. The prices at which supplies furnished by the United States of America pursuant to this Agreement will be sold in China shall be agreed upon between the Government of China and the Government of the United States of America.

Article V

1. The provisions of this Article shall apply only with respect to assistance which may be furnished by the Government of the United States of America on a grant basis pursuant to this Agreement.

2. The Government of China agrees to establish a special account in the Central Bank of China in the name of the Government of China (hereinafter called the special account) and to make deposits in Chinese currency to this account as follows:

A. The unencumbered balance at the close of business on the day of the signature of this Agreement in that special account in the Central Bank of China in the name of the Government of China established pursuant to the Agreement between the Government of China and the Government of the United States of America made on October 27, 1947, and any further sums which may from time to time be required by such Agreement to be deposited in that special account. It is understood that subsection (E) of Section 114 of the Foreign Assistance Act of 1948 constitutes the approval and determination of the Government of the United States of America with respect to the disposition of such balance referred to in that Agreement, and

B. The unencumbered balances of the deposits made by the Government of China pursuant to the exchange of notes between the two Governments dated April 30, 1948.

C. Amounts commensurate with the indicated dollar cost to the Government of the United States of America of commodities, services and technical information (including any costs of processing, storing, transporting, repairing or other services incident thereto) made available to China on a grant basis pursuant to this Agreement less, however, the amount of deposits made pursuant to the exchange of notes referred to in sub-paragraph B. The Government of the United States of America shall from time to time notify the Government of China of the indicated dollar cost of any such commodities, services and technical information and the Government of China will deposit in the special account at such times as may be specified by the Government of the United States of America a commensurate amount of Chinese currency computed at a rate of exchange to be agreed upon between the Government of China and the Government of the United States of America. The Government of China will, upon the request of the Government of the United States of America, make advance deposits in the special account which shall be credited against subsequent notifications pursuant to this paragraph.

3. The Government of the United States of America will from time to time notify the Government of China of its requirements for administrative expenditures in Chinese currency within China incident to operations under the China Aid Act of 1948 and the Government of China will thereupon make such sums available out of any balances in the special account in the manner requested by the Government of the United States of America in the notification.

4. The Government of China will further make such sums of Chinese currency available out of any balances in the special account as may be required to cover: A. Expenditures required to carry out the purposes of the Joint Commission on Rural Reconstruction in China as provided for by Section 407 of the China Aid Act of 1948; and B. Costs (including port, storage, handling and similar charges) of transportation from any point of entry in China to the consignee's designated point of delivery in China of such relief supplies and packages as are referred to in Article VII.

5. The Government of China shall dispose of any remaining balance in the special account only for such purposes as may be agreed from time to time with the Government of the United States of America including in particular: A. Sterilization as a measure of monetary and financial stabilization; B. Expenditures incident to the stimulation of productive activity and the development of new sources of wealth including materials which may be required in the United States of America because of deficiencies or potential deficiencies in the resources of the United States of America; C. Expenditures upon projects or programs the external costs of which are being covered in whole or in part by assistance rendered by the Government of the United States of America or by loans from the International Bank for Reconstruction and Development; or D. Expenditures upon uncompleted relief or work relief projects undertaken pursuant to the Agreement between the Government of China and of the United States of America of October 27, 1947.

6. The Government of China will maintain the value in terms of United States dollar equivalent of such amount of the special account as is: A. Indicated by the Government of the United States of America as necessary for administrative expenditures referred to in paragraph 3 of this Article; B. Required for the purposes of paragraph 4 of this Article; and C. Agreed between the two Governments to be necessary to defray the expenses in Chinese currency associated with reconstruction projects or programs the external costs of which are met in whole or in part by assistance rendered by the Government of the United States of America pursuant to the Agreement. The Government of China will carry out this provision by depositing such additional amounts of Chinese currency as the Government of the United States of America may from time to time determine after consultation with the Government of China.

7. Any unencumbered balance remaining in the special account on April 3, 1949, shall be disposed of within China for such purposes as may hereafter be agreed between the Governments of China and of the United States of America, it being understood that the agreement of the United States of America shall be subject to approval by act or joint resolution of the Congress of the United States of America.

Article VI

1. The Government of China will facilitate the transfer to the United States of America for stockpiling or other purposes of materials originating in China which are required by the United States of America as a result of deficiencies or potential deficiencies in its own resources

upon such reasonable terms of sale, exchange, barter or otherwise and in such quantities and for such period of time as may be agreed to between the Governments of China and of the United States of America after due regard for the reasonable requirements of China for domestic use and commercial export of such materials. The Government of China will take such specific measures as may be necessary to carry out the provisions of this paragraph. The Government of China will, when so requested by the Government of the United States of America, enter into negotiations for detailed arrangements necessary to carry out the provisions of this paragraph.

2. The Government of China will, when so requested by the Government of the United States of America, negotiate such arrangements as are appropriate to carry out the provisions of paragraph (9) of subsection 115 (B) of the Foreign Assistance Act of 1948 which relates to the development and transfer of materials required by the United States of America.

3. The Government of China, when so requested by the Government of the United States of America, will cooperate, wherever appropriate, to further the objectives of paragraphs 1 and 2 of this Article in respect of materials originating outside of China.

Article VII

The Government of China will, when so requested by the Government of the United States of America, enter into negotiations for agreements (including the provisions of duty-free treatment under appropriate safeguards) to facilitate the entry into China of supplies of relief goods donated to or purchased by United States voluntary non-profit relief agencies and of relief packages originating in the United States of America and consigned to individuals residing in China.

Article VIII

1. The two Governments will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to operations or arrangements carried out pursuant to this Agreement.

2. The Government of China will communicate to the Government of the United States of America in a form and at intervals to be indicated by the latter after consultation with the Government of China:

A. Detailed information regarding projects, programs and measures proposed or adopted by the Government of China to carry out the provisions of this Agreement;

B. Full statements of operations under this Agreement, including a statement of the use of funds, commodities and services received thereunder, such statements to be made in each calendar quarter;

C. Information regarding its economy and any other relevant information which the Government of the United States of America may need to determine the nature and scope of operations, and to evaluate the effectiveness of assistance furnished or contemplated under this Agreement.

3. The Government of China will assist the Government of the United States of America to obtain information relating to the materials originating in China referred to in Article VI which is necessary to the formulation and execution of the arrangements provided for in that Article.

Article IX

1. The Government of China will keep the people of China fully informed of the progress achieved by the Government of China in implementing the undertakings contained in this Agreement designed to achieve more stable economic conditions in China, and it will provide continuously information to the people of China regarding the nature and extent of assistance furnished pursuant to this Agreement. It will make such information available to the media of public information and will take practicable steps to ensure that appropriate facilities are provided for the dissemination of such information.

2. The Government of the United States of America will encourage the dissemination of such information and will make it available to the media of public information.

3. The Government of China will make public in China in each calendar quarter full statements of operations under this Agreement, including information as to the uses of funds, commodities and services received.

Article X

1. The Government of China agrees to receive a Special Mission for Economic Cooperation which will discharge the responsibilities of the Government of the United States of America in China under this Agreement.

2. The Government of China will, upon appropriate notification from the Ambassador of the United States of America in China, consider the Special Mission and its personnel as part of the Embassy of the United States of America in China for the purposes of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. The Government of China will further accord appropriate courtesies to the members and staff of the Joint Committee on Foreign Economic Cooperation of the Congress of the United States of America and will grant them the facilities and assistance necessary to the effective performance of their responsibilities.

3. The Government of China will extend full cooperation to the Special Mission and to the members and staff of the Joint Committee. Such cooperation shall include the provision of all information and facilities necessary to the observation and review of the carrying out of this Agreement, including the use of assistance furnished under it.

Article XI

1. The Governments of China and of the United States of America agree to submit to the decision of the International Court of Justice any claim espoused by either Government on behalf of one of its nationals against the other Government for compensation for damage arising as a consequence of governmental measures (other than measures concerning enemy property or interests) taken after April 3, 1948 by the other Government and affecting property or interests of such national including contracts with or concessions granted by duly authorized authorities of such other Government. It is understood that the undertaking of each Government in respect of claims espoused by the other Government pursuant to this paragraph is made in the case of each Government under the authority of and is limited by the terms and conditions of such effective recognition as it has heretofore given to the compulsory jurisdiction of the International Court of Justice under Article 36 of the Statute of the Court. The provisions of this paragraph shall be in all respects without prejudice to other rights of access, if any, of either Government to the International Court of Justice or to the espousal and presentation of claims based upon alleged violations by either Government of rights and duties arising under treaties, agreements or principles of international law.

2. The Governments of China and of the United States of America further agree that such claims may be referred in lieu of the Court to any arbital tribunal mutually agreed upon.

3. It is further understood that neither Government will espouse a claim pursuant to this Article unless the national concerned has exhausted the remedies available to him in the administrative and judicial tribunals of the country in which the claim exists.

Article XII

1. This Agreement shall become effective on this day's date. It shall remain in force until June 30, 1950, and, unless at least six months before June 30, 1950, either Government shall have given the other notice in writing of intention to terminate the Agreement on that date, it shall remain in force thereafter until the expiration of six months from the date on which such notice shall have been given. Article V shall remain in effect until all the sums in the currency of China required to be disposed of in accordance with its own terms have been disposed of as provided in such Article.

2. This Agreement may be amended at any time by agreement between the two Governments.

3. The Annex to this Agreement forms an integral part thereof.

4. This Agreement shall be registered with the Secretary-General of the United Nations.

In witness whereof the respective representatives duly authorized for the purpose have signed the present Agreement.

Done at Nanking in duplicate in the Chinese and English languages, both texts authentic, this third day of the seventh month of the thirty-seventh year of the Republic of China, corresponding to the third day of July, 1948.

(Signed) WANG Shih-chieh
For the Government of
the Republic of China.
(Signed) J. Leighton STUART
For the Government of the
United States of America.

Annex

1. It is understood that the requirements of paragraph 1 A. of Article II, relating to the adoption of measures for the efficient use of resources would include, with respect to commodities furnished under the Agreement, effective measures for safeguarding such commodities and for preventing their diversion to illegal or irregular markets or channels of trade.

2. It is understood that the Government of China will not be requested, under paragraph 2 A. of Article VIII to furnish detailed information about minor projects or confidential commercial or

technical information the disclosure of which would injure legitimate commercial interests.

3. It is understood that the Government of the United States of America in making the notifications referred to in paragraph 2 of Article X would bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges would be requested. It is also understood that the detailed application of Article X would, when necessary, be the subject of inter-governmental discussion.

(Signed) WANG Shih-chieh
(Signed) J. Leighton STUART

Nanking, July 3, 1948

Exchange of Notes

(I) *Note from the Ambassador of the United States of America to the Minister for Foreign Affairs of the Republic of China:*

American Embassy
Nanking, July 3, 1948

Excellency:

I have the honor to refer to the conversations which have recently taken place between representatives of our two Governments on the conclusion of a bilateral agreement relative to the American Aid to China and to confirm the understanding reached as a result of these conversations as follows:

1. For such time as either the Government of the United States of America or the Government of the Republic of China participates in the occupation or control of any areas in Western Germany or the Free Territory of Trieste, the other Government will apply to the merchandise trade of such areas the provisions of the General Agreement on Tariffs and Trade dated October 30, 1947, as now or hereafter amended, relating to most favored nation treatment.

2. The undertaking in point 1 above will apply on the part of the Government of the United States of America or the Government of China to the merchandise trade of any area referred to therein only for such time and to such extent as such area accords reciprocal most favored nation treatment to the merchandise trade of the United States of America or China respectively.

3. The undertakings in points 1 and 2, above, are entered into in the light of the absence at the present time of effective or significant tariff barriers to imports into the areas herein concerned. In the event that such tariff barriers are imposed, it is understood that such undertakings shall be without prejudice to the application of the principles set forth by the Havana Charter for an International Trade Organization relating to the reduction of tariffs on a mutually advantageous basis.

4. It is recognized that the absence of a uniform rate of exchange for the currency of the areas in Western Germany referred to in point 1, above, may have the effect of indirectly subsidizing the exports of such areas to an extent which it would be difficult to calculate exactly. As long as such a condition exists, and if consultation with the Government of the United States of America fails to reach an agreed solution to the problem, it is understood that it would not be inconsistent with the undertaking in point 1 for the Government of China to levy a countervailing duty on imports of such goods equivalent to the estimated amount of such subsidization, where the Government of China determines that the subsidization is such as to cause or threaten material injury to an established domestic industry or is such as to prevent or materially retard the establishment of a domestic industry.

5. The undertakings in this note shall remain in force until January 1, 1951, and unless at least six months before January 1, 1951, either Government shall have given notice in writing to the other of intention to terminate these undertakings on that date, they shall remain in force thereafter until the expiration of six months from the date on which such notice shall have been given.

Please accept, Excellency, the renewed assurances of my highest consideration.

(Signed) J. Leighton STUART

His Excellency
Dr. Wang Shih-chieh,
Minister of Foreign Affairs,
Ministry of Foreign Affairs,
NANKING.

(II) *Note from the Minister for Foreign Affairs of the Republic of China to the Ambassador of the United States of America:*

Nanking, July 3, 1948

Excellency,

I have the honor to acknowledge receipt of Your Excellency's Note reading as follows:

"I have the honor to refer to the conversations which have recently taken place between representatives of our two Governments on the conclusion of a bilateral agreement relative to the American Aid to China and to confirm the understanding reached as a result of these conversations as follows:

"1. For such times as either the Government of the United States of America or the Government of the Republic of China participates in the occupation or control of any areas in Western Germany or the Free Territory of Trieste, the other Government will apply to the merchandise trade of such areas the provisions of the General Agreement on Tariffs and Trade dated October 30, 1947, as now or hereafter amended, relating to most favored nation treatment.

"2. The undertaking in point 1 above will apply on the part of the Government of the United States of America or the Government of China to the merchandise trade of any area referred to therein only for such time and to such extent as such area accords reciprocal most favored nation treatment to the merchandise trade of the United States of America or China respectively.

"3. The undertakings in points 1 and 2, above, are entered into in the light of the absence at the present time of effective or significant tariff barriers to imports into the areas herein concerned. In the event that such tariff barriers are imposed, it is understood that such undertakings shall be without prejudice to the application of the principles set forth by the Havana Charter for an International Trade Organization relating to the reduction of tariffs on a mutually advantageous basis.

"4. It is recognized that the absence of a uniform rate of exchange for the currency of the areas in Western Germany referred to in point 1, above, may have the effect of indirectly subsidizing the exports of such area to an extent which it would be difficult to calculate exactly. As long as such a condition exists, and if consultation with the Government of the United States of America fails to reach an agreed solution to the problem, it is understood that it would not be inconsistent with the undertaking in point 1 for the Government of China to levy a countervailing duty on imports of such goods equivalent to the estimated amount of such subsidization, where the Government of China determines that the subsidization is such as to cause or threaten material injury to an established domestic industry or is such as to prevent or materially retard the establishment of a domestic industry.

"5. The undertakings in this note shall remain in force until January 1, 1951, and unless at least six months before January 1, 1951, either Government shall have given notice in writing to the other of intention to terminate these undertakings on that date, they shall remain in force thereafter until the expiration of six months from the date on which such notice shall have been given."

I have the honor to confirm the above understandings.

Please accept, Excellency, the renewed assurances of my highest consideration.

(Signed) WANG Shih-chieh

His Excellency
Dr. J. Leighton Stuart,
Ambassador Extraordinary
and Plenipotentiary
of the United States of America
to the Republic of China,
NANKING.

On August 5, 1948, in pursuance of the provisions in Section 407 of the China Aid Act of 1948, the establishment of a Sino-American Commission on Rural Reconstruction in China was agreed upon in Nanking between Dr. J. Leighton Stuart, U. S. Ambassador to China, and Dr. Wang Shih-chieh, Minister of Foreign Affairs.

Sino-American Agreement Providing for The Establishment of The Rural Reconstruction Commission in China

Exchange of Notes

(I) *Note from the American Ambassador to the Chinese Minister for Foreign Affairs:*

American Embassy
Nanking, August 5, 1948

Excellency:

I have the honor to refer to Section 407 of the China Aid Act of 1948 enacted by the Government of the United States of America (hereinafter referred to as the Act), which provides, among other things, for the conclusion of an agreement between China and the United States of America establishing a Joint Commission on Rural Reconstruction in China. In pursuance of the general principles laid down in the Act, and in particular Section 407 thereof, I have the honor to bring forward the following proposals regarding the organization of the Joint Commission and related matters.

(1) There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission), to be composed of two citizens of the United States of America appointed by the President of the United States of America and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as Chairman.

(2) The functions and authority of the Commission shall, subject to the provisions of the above-mentioned Section of the Act, be as follows:

(a) To formulate and carry out through appropriate Chinese Government agencies, and international or private agencies in China a coordinated program of reconstruction in rural areas of China (hereinafter referred to as the Program);

(b) To conclude arrangements with the agencies referred to in the preceding paragraph establishing a basis for their cooperation;

(c) To recommend to the Governments of the United States of America and of China, within the limits prescribed by the Act, the allocation of funds and other assistance to the Program, and to recommend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the Program;

(d) To establish standards of performance for implementation of the Program, including the qualifications, type and number of personnel to be used by cooperating agencies in the Program, and to maintain a constant supervision of all phases of the Program, with authority to recommend changes in or stoppage of any phase of the Program;

(e) To appoint such executive officers and administrative staff as the Commission deems necessary to carry out the Program, it being understood that the chief executive officer shall be a citizen of China. Salaries, expenses of travel and other expenses incident to the administrative functions of the Commission itself shall be paid from funds made available under Section 407 (b) of the Act.

(3) In its Program the Commission may include the following types of activity to be carried out in agreement with the agencies referred to in paragraph (2) (a):

(a) A coordinated extension-type program in agriculture, home demonstration, health and education, for initiation in a selected group of *hsien* in several provinces to include a limited number of subsidiary projects suited to conditions in the areas where the program is developed, in such fields as agricultural production, marketing, credit, irrigation, home and community industries, nutrition, sanitation, and education of a nature which will facilitate the promotion of all projects being undertaken;

(b) Consultation with the Chinese Government concerning ways and means of progressively carrying out land reform measures;

(c) Subsidiary projects in research, training and manufacturing, to be carried out in suitable locations to provide information, personnel and materials required by the Program;

(d) Projects to put into effect over a wider area than provided for in the coordinated extension-type program specified in (a), any of the above lines of activity which can be developed soundly on a larger scale, of which examples might be the multiplication and distribution of improved seeds, the control of rinderpest of cattle, the construction of irrigation and drainage facilities, and the introduction of health and sanitation measures;

(e) Related measures, in line with the general objectives of this Program;

(f) The distribution of the assistance in this Program, on the principle of giving due attention to strengthening rural improvement in areas where selected projects can be progressively developed and where their development will contribute most effectively to the achievement of purposes for which this Program is undertaken, but that the principle of distributing aid will not be controlled by proportionate or geographical consideration *per se*.

(4) In respect of any decision of the Commission, the approval of the Government of China shall be obtained prior to its execution if the Commission or its Chairman, with the concurrence of the Chinese members, deems it necessary.

(5) The Commission shall publish in China and transmit to the Government of the United States of America and the Government of China, in such form and at such times as may be requested by either of the two Governments, full statements of operations, including a statement on the use of funds, supplies and services received, and will transmit to the two Governments any other matter pertinent to operations as requested by either of the two Governments. The Government of China will keep the people of China fully informed of the intended purpose and scope of the Program and of the progress achieved by the Commission in implementing the Program, including the nature and extent of the assistance furnished by the Government of the United States of America.

(6) The Government of China will upon appropriate notification of the Ambassador of the United States of America in China consider the United States members and personnel of the Commission as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. It is understood that the Ambassador of the United States of America in China in making the notification will bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges and immunities would be requested. It is also understood that the detailed application of this paragraph would, when necessary, be a subject of inter-governmental discussion.

(7) All supplies imported into China for use in the Program shall be free of Customs duties, Conservancy dues and other charges imposed by the Government of China on similar supplies which are imported through regular commercial channels.

(8) The Government of the United States of America and the Government of China will consult with respect to problems incident to the interpretation, implementation and possible amendment of the terms of the agreement embodied in this exchange of notes whenever either of the two Governments considers such action appropriate.

(9) The Government of the United States of America reserves the right at any time to terminate or suspend its assistance, or any part thereof, provided under this exchange of notes. Assistance furnished by the Government of the United States of America under Section 407 of the Act and pursuant to this exchange of notes shall not be construed as an express or implied assumption by the Government of the United States of America of any responsibility for making any further contributions to carry out the purposes of Section 407 of the Act or of this exchange of notes.

(10) This note and Your Excellency's reply accepting the above proposals on behalf of the Government of China will constitute an agreement between the two Governments in the sense of Section 407 of the Act. Subject to the provisions of paragraphs (8) and (9), this exchange of notes will remain in force until June 30, 1949, or, upon the request of either Government transmitted to the other Government at least two months before June 30, 1949, until the date of termination of the Economic Aid Agreement between the two Governments concluded on July 3, 1948.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

(Signed) J. Leighton STUART

His Excellency
Dr. Wang Shih-chieh,
Minister for Foreign Affairs,
Ministry of Foreign Affairs,
NANKING.

(II) *Note from the Chinese Minister for Foreign Affairs to the American Ambassador:*

Nanking, August 5, 1948

Excellency:

I have the honor to acknowledge receipt of your note of today's date which reads as follows:

"I have the honor to refer to Section 407 of the China Aid Act of 1948 enacted by the Government of the United States of America (hereinafter referred to as the Act), which provides, among other things, for the conclusion of an agreement between China and the United States of America establishing a Joint Commission on Rural Reconstruction in China. In pursuance of the general principles laid down in the Act, and in particular Section 407 thereof, I have the honor to bring forward the following proposals regarding the organization of the Joint Commission and related matters:

"(1) There shall be established a Joint Commission on Rural Reconstruction in China (hereinafter referred to as the Commission), to be composed of two citizens of the United States of America appointed by the President of the United States of America and three citizens of the Republic of China to be appointed by the President of China. The Commission shall elect one of the Chinese members as Chairman.

"(2) The functions and authority of the Commission shall, subject to the provisions of the above-mentioned Section of the Act, be as follows:

"(a) To formulate and carry out through appropriate Chinese Government agencies, and international or private agencies in China a coordinated program for reconstruction in rural areas of China (hereinafter referred to as the Program);

"(b) To conclude arrangements with the agencies referred to in the preceding paragraph establishing a basis for their cooperation;

"(c) To recommend to the Governments of the United States of America and of China, within the limits prescribed by the Act, the allocation of funds and other assistance to the Program, and to recommend to the Government of China the allocation of such other funds and assistance as are deemed essential to the success of the Program;

"(d) To establish standards of performance for implementation of the Program, including the qualifications, type and number of personnel to be used by cooperating agencies in the Program, and to maintain a constant supervision of all phases of the Program, with authority to recommend changes in or stoppage of any phase of the Program;

"(e) To appoint such executive officers and administrative staff as the Commission deems necessary to carry out the Program, it being understood that the chief executive officer shall be a citizen of China. Salaries, expenses of travel and other expenses incident to the administrative functions of the Commission itself shall be paid from funds made available under Section 407 (b) of the Act.

"(3) In its Program the Commission may include the following types of activity to be carried out in agreement with the agencies referred to in paragraph (2) (a):

"(a) A coordinated extension-type program in agriculture, home demonstration, health and education, for initiation in a selected group of *hsien* in several provinces to include a limited number of subsidiary projects suited to conditions in the areas where the program is developed, in such fields as agricultural production, marketing, credit, irrigation, home and community industries, nutrition, sanitation, and education of a nature which will facilitate the promotion of all projects being undertaken;

"(b) Consultation with the Chinese Government concerning ways and means of progressively carrying out land reform measures;

"(c) Subsidiary projects in research, training and manufacturing, to be carried out in suitable locations to provide information, personnel and materials required by the Program;

"(d) Projects to put into effect over a wider area than provided for in the coordinated extension-type program specified in (a), any of the above lines of activity which can be developed soundly on a larger scale, of which examples might be the multiplication and distribution of improved seeds, the control of rinderpest of cattle, the construction of irrigation and drainage facilities, and the introduction of health and sanitation measures;

"(e) Related measures, in line with the general objectives of this Program;

"(f) The distribution of the assistance in this Program, on the principle of giving due attention to strengthening rural improvement in areas where selected projects can be progressively developed and where their development will contribute most effectively to the achievement of purposes for which this Program is undertaken, but that the principle of distributing aid will not be controlled by proportionate or geographical consideration *per se*.

"(4) In respect of any decision of the Commission, the approval of the Government of China shall be obtained prior to its execution if the Commision or its Chairman, with the concurrence of the Chinese members, deems it necessary.

"(5) The Commission shall publish in China and transmit to the Government of the United States of America and the Government of China, in such form and at such times as may be requested by either of the two Governments, full statements of operations, including a statement on the use of funds, supplies and services received, and will transmit to the two Governments any other matter pertinent to operations as requested by either of the two Governments. The Government of China will keep the people of China fully informed of the intended purpose and scope of the Program and of the progress achieved by the Commission in implementing the Program, including the nature and extent of the assistance furnished by the Government of the United States of America.

"(6) The Government of China will upon appropriate notification of the Ambassador of the United States of America in China consider the United States members and personnel of the Commission as part of the Embassy of the United States of America in China for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. It is understood that the Ambassador of the United States of America in China in making the notification will bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges and immunities would be requested. It is also understood that the detailed application of this paragraph would, when necessary, be a subject of inter-governmental discussion.

"(7) All supplies imported into China for use in the Program shall be free of Customs duties, Conservancy dues and other charges imposed by the Government of China on similar supplies which are imported through regular commercial channels.

"(8) The Government of the United States of America and the Government of China will consult with respect to problems incident to the interpretation, implementation and possible amendment of the terms of the agreement embodied in this exchange of notes whenever either of the two Governments considers such action appropriate.

"(9) The Government of the United States of America reserves the right at any time to terminate or suspend its assistance, or any part thereof, provided under this exchange of notes. Assistance furnished by the Government of the United States of America under Section 407 of the Act and pursuant to this exchange of notes shall not be construed as as express or implied assumption by the Government of the United States of America of any responsibility for making any further contributions to carry out the purposes of Section 407 of the Act or of this exchange of notes.

"(10) This note and Your Excellency's reply accepting the above proposals on behalf of the Government of China will constitute an agreement between the two Governments in the sense of Section 407 of the Act. Subject to the provisions of paragraphs (8) and (9), this exchange of notes will remain in force until June 30, 1949, or, upon the request of either Government transmitted to the other Government at least two months before June 30, 1949, until the date of termination of the Economic Aid Agreement between the two Governments concluded on July 3, 1948."

On behalf of the Government of China, I have the honor to accept the proposals contained in the note quoted above.

In recognition of the importance of the Program as one of the essential means of achieving the objectives in which the Governments of China and of the United States of America unite in seeking under the Economic Aid Agreement between the two Governments concluded on July 3, 1948, the Government of China undertakes to afford to the execution of the Program the full weights of its support and to direct cooperating agencies of the Government of China, including the local officials concerned, to give such assistance and facilities as are essential to the success of their undertakings under the Program.

I avail myself of this opportunity to renew to Your Excellency the assurances of my highest consideration.

(Signed) WANG Shih-chieh

His Excellency
J. Leighton Stuart,
Ambassador of the United States
of America to China,
NANKING

RELATIONS WITH THE UNITED KINGDOM

1. Political

*New Sino-British Treaty**—The new Sino-British Treaty was signed in Chungking on January 11, 1943, between Dr. T. V. Soong, Minister of Foreign Affairs, and British Ambassador Sir Horace James Seymour and Mr. H. E. Richardson (for India). The exchange of ratifications took place in Chungking on May 20, 1943.

Ambassador Stevenson Arrives—Sir Ralph Skrine Stevenson, British Ambassador to China, arrived in China on May 24, 1946. He presented his credentials to President Chiang Kai-shek on August 7, 1946, succeeding Sir Horace Seymour.

Cheng Appointed as Ambassador—The appointment of Dr. Cheng Tien-hsi as Ambasador to the Court of St. James was announced by the Executive Yuan on July 16, 1946. Dr. Cheng presented his credentials to King George VI on July 27, 1946, succeeding Dr. V. K. Wellington Koo.

British Trade Mission to China—The British Trade Mission, headed by Sir Leslie Boyce, arrived in Shanghai on October 8, 1946. The mission, sent by Sir Stafford Cripps, Minister for Economic Affairs, was composed of 12 members who made a tour of 12,000 km. to various principal cities in China.

Air Transport Agreement—In January, 1947, the British Government sent an air mission to China headed by Air Marshal Sir John A. E. Baldwin. The mission, including Charles North of the British Ministry of Civil Aviation, A. G. R. Moss, Director of Air Services Department of the Hongkong Government, and Commander Galpin, British Overseas Airways Corp. Far East representative, arrived in Nanking on February 6, 1947.

The discussions between the British Mission and representatives of the Chinese Government resulted in the signing of the Air Transport Agreement by Dr. Wang Shih-chieh, Minister of Foreign Affairs, and Sir Ralph Skrine Stevenson, British Ambassador to China, on July 23, 1947, at Nanking. The pact was ratified by the Legislative Yuan on September 15, 1947.

Under this agreement, designated British airlines are accorded the right of transit, for non-traffic purposes, commercial entry and departure for international traffic in passengers, freight and mail at

* For full text of New Sino-British Treaty, see CHINA HANDBOOK, 1943.

the leading China ports of Shanghai, Canton, Kunming and Tientsin. China has similar rights at London, Restwick, Hongkong, Singapore, Penang, Kuching, Jesselton and Labuan.

By an exchange of notes signed on the same date as the agreement, it was further stipulated that British planes might make non-traffic stops at Haikow and Amoy, and emergency landings at Swatow and Foochow. In a second note, Ambassador Stevenson received for Great Britain a special dispensation from application of China's foreign trade regulations which might impede or prohibit the import into China of equipment essential for the operation of efficient British air services. A third note confirmed the understanding of both Governments that China agrees to grant to British airlines on scheduled international services between Hongkong and Macao the right to fly across and make emergency landings in Chinese territory between these two points.

British Parliamentary Mission to China—The British Parliamentary Mission to China, headed by Lord Ammon, arrived in Nanking on October 9, 1947 to study the situation in China in order to promote closer commercial relationships between the two countries.

The members of the mission were Lord Amulree, Martin Lindsay, W. Roberts, Alderman Frank MacLeavy, and James Harrison. During its one-month stay in China, the mission visited Peiping, Tientsin, Hangchow, Shanghai, Taiwan province, Hankow, Chungking, and Canton.

Kowloon City Incidents—The City of Kowloon occupies a small area within the territory leased to Great Britain under the Convention for the Extension of Hongkong of 1898. The Convention provides: "Within the city of Kowloon the Chinese officials now stationed there shall continue to exercise jurisdiction except so far as may be inconsistent with the military requirements for the defense of Hongkong."

Interpretations of the provisions differ. The British Government insisted that the jurisdiction of the city ended with the withdrawal of the "Chinese officials now stationed there" who were compelled to leave the city in 1899 by force of arms and under protest. The Chinese Government, while maintaining that the quoted words of "Chinese officials" should not be logically taken to mean only the persons then holding office in the city and not to include all their successors, held that the condition of military requirements was a limitation on the exercise of the duties of said Chinese officials and not a condition on the continuation of Chinese jurisdiction there.

On January 5, 1948, the Hongkong Government sent a group of police and workmen to the City of Kowloon to effect "precautionary measures against epidemic diseases and fire." They demolished the houses of Chinese residents in the city and as a result of their protest arrested two delegates of the residents.

A formal protest by the Chinese Government was then forwarded to the British Government, emphatically reasserting China's jurisdictional right in the City of Kowloon and requesting that the matter be settled through diplomatic channels instead of employing coercive measures.

But the request was not heeded. On January 12, 1948, a large contingent of armed police equipped with shields, steel helmets and firearms and accompanied by a group of workmen were again sent to Kowloon City. By firing on the residents before making use of tear-gas bombs, they caused injuries to a number of persons and seriously wounded two of them.

The Ministry of Foreign Affairs sent another serious protest to the British Government after the incident. Meanwhile, anti-British sentiment among the Chinese people aroused by the Kowloon occurrences was making itself felt throughout the country. On January 16, 1948, a parade staged by people in Canton led to the unfortunate incident of Shameen in which the British consulate and the premises of some British firms were burned down.

The position of the Chinese Government in the Kowloon issue was clearly stated in a reply note dated February 5, 1948, from Dr. Cheng Tien-hsi, Chinese Ambassador in London, to Mr. Ernest Bevin, British Foreign Secretary. Following is the full text of the note:

"I have the honor to acknowledge receipt of your note dated January 24th, 1948, concerning the recent evictions of Chinese residents from the City of Kowloon and, under instruction from my government, to send to you the following reply:

"The Chinese Government wishes to state that in regard to jurisdiction over the City of Kowloon, it has consistently adhered to the interpretation it has adopted of the Peking Convention of 1898, namely, that the City of Kowloon is expressly reserved to Chinese jurisdiction. This interpretation is borne out not only by the wording of the said Convention but by reference to the other treaties concluded in the same year which formed the bases of other

leased territories. Such reference is justified inasmuch as the arrangement of reserving a special zone connected with each of the leased territories to Chinese jurisdiction formed a part of general Chinese policy and was not confined to Kowloon. It will be found, e.g., that expression is given to this policy in Article I of the Sino-German Convention of March 6, 1898, regarding Kiaochow, and Article IV of the Additional Agreement between China and Russia of May 7, 1898, regarding the Liaotung Peninsula, which later provides specifically that "the administration and police of the city of Kinchow shall be Chinese."

"It is true that the relevant provision in the Peking Convention regarding Kowloon speaks of 'Chinese officials now stationed there' and requires them to exercise their jurisdiction in a manner consistent with the military requirements for the defense of Hongkong. But the few words just quoted cannot logically be taken to mean only the persons then holding office in the city and not to include all their successors.

"Moreover, nowhere in the Convention regarding Kowloon is there to be found any provision for the withdrawal of the Chinese officials in any circumstances in spite of the condition relative to military requirements. On the contrary, the stipulation that 'within the remainder of the newly-leased territory Great Britain shall have sole jurisdiction' necessarily implies that within the city of Kowloon Great Britain is not empowered to exercise such jurisdiction.

"In regard to your statement that the Hongkong Government have exercised uninterruptedly since 1899 sole jurisdiction over the city of Kowloon, except for the period of Japanese occupation, I must recall to you certain important facts which cannot have escaped your attention. In the first place, the Chinese officials withdrew from the city of Kowloon and ceased to exercise jurisdiction there in 1899 only when they were compelled by force of arms to do so, and it was done under protest. Secondly, ever since then the Chinese Government has not only never renounced its jurisdiction over the area concerned, but has on more than one occasion taken serious exception to the attempted assumption by the Hongkong Government of such jurisdiction. Reference is made in particular to the plan which was formulated by the Chinese Government in 1946 for resuming its administration in Kowloon city, which was temporarily shelved only out of consideration of the friendly relations between our two countries. It may be pointed out that, while the Hongkong Government, in a statement issued at the time by the Governor of Hongkong, questioned the right of the Chinese Government to re-establish administrative authority in Kowloon city, the spokesman of the *Waichiaopu* lost no time in refuting that statement.

"As soon as word was received last December that the Hongkong Government contemplated the eviction of Chinese residents from Kowloon city and the demolition of their dwellings, the Chinese Government repeatedly requested the British Embassy in Nanking to warn the Hongkong Government against the employment of coercive measures, the consequences of which, it was thought, might be serious. It is most regrettable that this warning was not heeded and that the Hongkong Government showed no scruples in resorting to forcible action both on January fifth and on January twelfth. On the latter occasion, a large contingent of armed police, equipped with shields, steel helmets and firearms, and accompanied by a group of workmen, went into Kowloon city, and by firing on the residents before use was made of tear-gas bombs, caused injuries to a number of these residents, of whom two were seriously wounded.

"Therefore, the Chinese Government feels very strongly that the responsibility for the unfortunate incidents in Kowloon city should clearly be borne by the Hongkong Government. The provocative action on the part of that government, taken at a time when conversations were still in progress between the two sides with a view to reaching an amicable settlement, contributed mainly to the deterioration of the situation which led to the series of events that followed, including the incident of Shameen on January 16th. In the opinion of the Chinese Government, it would not be just to attribute to newspaper accounts and comments the responsibility for the unfortunate occurrences in Kowloon.

"The Chinese Government also finds itself unable to accept the view you have taken that the Po-an Magistrate's visit to Kowloon was to a degree responsible for the Kowloon incidents.

The action taken by the Po-an Magistrate in visiting Kowloon city and comforting the victims of the eviction of January 5th was the least that a magistrate legally responsible for the administration of the city area should do in discharging the duties devolving upon him.

"Apart from all the facts stated above, may I add another observation to which I hope you will give equal consideration. In order to obtain proper perspective of the Convention of 1898 regarding the Leased Territory of Kowloon, it is important to recall the circumstances in which the several leases of that period were granted. Unable to resist the successive rival demands from the Powers who were each seeking a sphere of influence on the Asiatic mainland, the Chinese Government secured a minimum reservation in each of the leases where a local government was functioning, in the form of a special area over which China should continue to exercise jurisdiction. In other words, China yielded to the force of circumstances by agreeing only to meet the military requirements of the Powers concerned without renouncing her jurisdiction in the respective reserved areas. That the failure of Great Britain to observe even this reservation in respect of Kowloon, which stands now as the last vestige of an outmoded system, would have the most unfortunate repercussions in China may well be imagined.

"In order to prevent further aggravation of the situation the Chinese Government earnestly urges the British Government to accede to the requests for a proper settlement put forward by the Chinese Government through this Embassy and through the British Embassy in Nanking."

China-Hongkong Customs Agreement—For the prevention of smuggling between Hongkong and Chinese ports, an agreement was concluded between Dr. Wang Shih-chieh, Minister of Foreign Affairs, and Sir Ralph Skrine Stevenson, British Ambassador to China, on January 12, 1948, at Nanking. Main points of the agreement are as follows:

1. The Government of Hongkong will submit to the Legislative Council of Hongkong legislation the objects of which shall be to restrict the loading of goods intended to be exported to China at different designated places in Hongkong for the inspection of the Chinese Maritime Customs.

2. The Chinese Customs shall be at liberty to establish within Hongkong centers at which Chinese duty may be paid or assessed in advance in respect of commodities about to be exported to China.

3. The Government of Hongkong will instruct the Harbor Master to assist the Chinese Customs as far as possible by refusing clearance of vessels from Hongkong for any port in China save those ports on a list to be agreed to between the Chinese Customs and the Harbor Master, but such instructions shall be discretionary only and may be varied or revoked at any time either generally or in specific instances. Where sufficient evidence is forthcoming that vessels were cleared from Hongkong for a port in China failed without sufficient justification to proceed to such port, proceedings for penalty will be normally instituted when such vessel returns to Hongkong.

4. The Government of Hongkong grants to the Chinese Customs liberty to enter upon and patrol those areas in Hongkong waters described in the Schedule appended to the agreement to stop any vessel for the purpose of examining her papers; if it is found that any such vessel which is carrying cargo has not been duly cleared from a port in Hongkong the Chinese Customs shall, unless such vessel is allowed to proceed on her voyage, place such vessel in the custody of the nearest or most convenient Hongkong authority.

5. The Government of Hongkong will consider measures for directing that export of goods from Hongkong to China across the northern land frontier shall take place only at Sha Tau Kok and any other points which may be agreed upon.

6. The Chinese Customs and the Superintendent of Imports and Exports of Hongkong will each of them supply to the other any useful information for the prevention and detection of the smuggling of narcotics and dutiable commodities or of the exportation or importation of prohibited exports or imports.

7. The agreement shall come into force not later than January 20, 1948, and shall remain in force for one year. Thereafter it shall continue in force until three months after written notice of termination is given by one contracting government to the other.

II. Military

Transfer of British Ships—The cruiser *Aurora* and the destroyer *Mendip* of the British Navy were transferred to China in a ceremony at Portsmouth on May 19, 1948. Dr. Cheng Tien-hsi, Chinese Ambassador to Great Britain, represented China in accepting the two ships from Admiral Lord Fraser, Commander-in-Chief of the Royal Navy, representing the British Government. The cruiser was given to China in accordance with an agreement reached by the two countries in 1946 while the destroyer was leased to China for five years. The *Aurora* was later rechristened the *Chungking* and the *Mendip* became the *Lingfu*.

III. Economic and Financial

Lady Cripps' Fund—The British United Aid to China, also known as the Lady Cripps' Fund, raised about £2-million from 1942 to 1947. The money was given to Chinese cultural, philanthropic, and social organizations and institutions and for other worthy causes.

On China's National Day on October 10, 1947, the Fund sponsored the China's National Flag Day in different places in England. A speech expressing gratitude was delivered by Dr. Cheng Tien-hsi, Chinese Ambassador in London.

On November 6, 1947, the Fund passed a new measure for educational aid to China, by establishing a trust fund for scholarships to enable Chinese students to study in England.

IV. Cultural

Representative of the British Council—Chief Representative of the British Council in China, the late Prof. P. M. Roxby, arrived in Chungking in May, 1945. During the war, the Council maintained cultural contact between China and Great Britain. Since V-J Day it has made plans for long-range cultural cooperation.

RELATIONS WITH THE U.S.S.R.

Sino-Soviet Treaty of Friendship and Alliance—The Treaty of Friendship and Alliance between China and the U.S.S.R. and the related agreement, protocols, exchange of notes and initialed minutes which were signed in Moscow on August 14, 1945 were submitted to, and passed by, a joint session of the Standing Committee of the Kuomintang Central Executive Committee and the Supreme National Defense Council, on August 24, 1945, and by the Legislative Yuan on the same day. The National Government accordingly ratified on August 25 the treaty and related documents and authorized the publication of their full texts. The Soviet Government ratified the treaty on August 25.

Treaty of Friendship and Alliance (and Other Related Documents) Between The Republic of China and The Union of Soviet Socialist Republics

Signed at Moscow, on August 14, 1945

I

Treaty of Friendship and Alliance*

The President of the National Government of the Republic of China and the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics,

Being desirous of strengthening the friendly relations which have always prevailed between the Republic of China and the Soviet Union, by means of an alliance and by good neighborly post-war collaboration;

Determined to assist each other in the struggle against aggression on the part of the enemies of the United Nations in this World War and to collaborate in the common war against Japan until that country's unconditional surrender;

Expressing their unswerving resolve to collaborate in maintaining peace and security for the benefit of the peoples of both countries and of all peace-loving nations;

Acting in accordance with the principles proclaimed in the joint Declaration by the United Nations of 1 January 1942, in the Declaration of the Four Powers signed in Moscow on 30 October 1943, and in the Charter of the "United Nations" International Organization,

Have decided to conclude the present Treaty for that purpose and have appointed as their Plenipotentiaries:

The President of the National Government of the Republic of China:

Wang Shih-Chieh, Minister for Foreign Affairs of the Chinese Republic;

The Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics:

Vyacheslav Milhailovitch Molotov, Peoples' Commissar for Foreign Affairs of the U.S.S.R.,

Who, having communicated to each other their full powers, found in good and due form, have agreed as follows:

Article 1

The High Contracting Parties undertake jointly with the other United Nations to prosecute the war against Japan until final victory is achieved. The High Contracting Parties mutually undertake to

* Came into force on August 24, 1945, upon the exchange of the instruments of ratification at Chungking, in accordance with Article 8.

afford one another all necessary military and other assistance and support in this war.

ARTICLE 2

The High Contracting Parties undertake not to enter into separate negotiations with Japan or conclude, except by mutual consent, any armistice or peace treaty either with the present Japanese Government or any other Government or authority set up in Japan that does not clearly renounce all aggresive intentions.

ARTICLE 3

On the conclusion of the war against Japan, the High Contracting Parties undertake to carry out jointly all the measures in their power to render impossible a repetition of aggression and violation of the peace by Japan.

Should either of the High Contracting Parties become involved in hostilities with Japan in consequence of an attack by the latter against that Party, the other High Contracting Party will at once render to the High Contracting Party so involved in hostility all the military and other support and assistance in its power.

This Article shall remain in force until such time as, at the request of both High Contracting Parties, responsibility for the prevention of further aggression by Japan is placed upon the "United Nations" Organization.

ARTICLE 4

Each High Contracting Party undertakes not to conclude any alliance and not to take part in any coalition directed against the other Contracting Party.

ARTICLE 5

The High Contracting Parties, having regard to the interests of the security and economic development of each of them, agree to work together in close and friendly collaboration after the re-establishment of peace and to act in accordance with the principles of mutual respect for each other's sovereignty and territorial integrity and non-intervention in each others' internal affairs.

ARTICLE 6

The High Contracting Parties agree to afford one another all possible economic assistance in the post-war period in order to facilitate and expedite the rehabilitation of both countries and to make their contribution to the prosperity of the world.

ARTICLE 7

Nothing in this Treaty should be interpreted in such a way as to prejudice the rights and duties of the High Contracting Parties as Members of the Organization of the "United Nations."

ARTICLE 8

The present Treaty is subject to ratification in the shortest possible time. The instruments of ratification shall be exchanged in Chungking as soon as possible.

The Treaty comes into force immediately upon ratification, and shall remain in force for thirty years. Should neither of the High Contracting Parties make, one year before the date of the Treaty's expiry, a statement of its desire to denounce it, the Treaty will remain in force for an unlimited period, provided that each High Contracting Party may invalidate it by announcing its intention to do so to the other Contracting Party one year in advance.

IN WITNESS WHEREOF, the respective Plenipotentiaries have signed this Treaty and have affixed thereto their seals.

DONE in Moscow, the 14 August 1945 and the 14th day of the month of August in the 34th year of the Chinese Republic, in two copies, each copy in both Chinese and Russian, both texts being of equal validity.

By authority of the President of the National Government of the Chinese Republic
WANG SHIH-CHIEH

By Authority of the Presidium of the Supreme Soviet of the USSR
V. MOLOTOV

EXCHANGE OF NOTES

No. 1

Note from the Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics to Mr. Wang, Minister of Foreign Affairs of the National Government of the Republic of China

Moscow, 14 August 1945

Sir,

In connection with the signing on this date of the Treaty of Friendship and Alliance between China and the Union of Soviet Socialist Republics, I have the honor to place on record that the following provisions are understood by both Contracting Parties as follows:

(1) In accordance with the spirit of the above-mentioned Treaty and to implement its general idea and its purposes, the Soviet Government agrees to render China moral support and assist her with military supplies and other material resources, it being understood that this support and assistance will go exclusively to the National Government as the Central Government of China.

(2) During the negotiations on the ports of Dairen and Port Arthur and on the joint operation of the Chinese Changchun Railway, the Soviet Government regarded the Three Eastern Provinces as part of China and again affirmed its respect for the complete sovereignty of China over the Three Eastern Provinces and recognition of their territorial and administrative integrity.

(3) With regard to recent events in Sinkiang, the Soviet Government confirms that, as stated in Article 5 of the Treaty of Friendship and Alliance, it has no intention of interfering in the internal affairs of China.

Should you confirm your agreement with this understanding of the above-mentioned points, the present Note and your answer to it will form part of the above-mentioned Treaty of Friendship and Alliance.

I have the honor to be, etc.

(*Signed*) V. MOLOTOV

Mr. Wang Shih-Chieh
Minister of Foreign Affairs of the Chinese Republic
Moscow

No. 2

Note from Mr. Wang Shih-Chieh, Minister of Foreign Affairs of the National Government of the Republic of China, in answer to Mr. Molotov, Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics

14 August of the 34th year of the Republic of China, corresponding to 14 August 1945

Sir,

I have the honor to acknowledge receipt of your Note of today's date reading as follows:

[*See Note No. 1*]

I have the honor to confirm the correctness of the above understanding.

I have the honor to be, etc.

(*Signed*) WANG SHIH-CHIEH

Mr. Molotov
Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics
Moscow

No. 3

Note from Mr. Wang Shih-Chieh, Minister of Foreign Affairs of the National Government of the Republic of China, to Mr. Molotov, Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics

14 August of the 34th year of the Republic of China, corresponding to 14 August 1945

Sir,

In view of the frequently manifested desire for independence of the people of Outer Mongolia, the Chinese Government states that, after the defeat of Japan, if this desire is confirmed by a plebiscite of the people of Outer Mongolia, the Chinese Government will recognize the independence of Outer Mongolia within her existing frontiers.

The above statement will have binding force after the ratification of the Treaty of Friendship and Alliance signed by the Chinese Republic and the Union of Soviet Socialist Republics on 14 August 1945.

I have the honor to be, etc.

(*Signed*) WANG SHIH-CHIEH

Mr. Molotov
Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics
Moscow

No. 4

Note from Mr. Molotov, Peoples' Commissar for Foreign Affairs of the Union of Soviet Socialist Republics, in answer to a Note from Mr. Wang, Minister of Foreign Affairs of the National Government of the Chinese Republic.

Moscow, 14 August 1945

Sir,

I hereby acknowledge the receipt of your Note informing me as follows:

[*See Note No. 3*]

It is with satisfaction that the Soviet Government takes note of the above statement by the Government of the Chinese Republic and affirms for its part that it will respect the political independence and territorial integrity of the Mongolian People's Republic (of Outer Mongolia).

I have the honor to be, etc.

(*Signed*) V. MOLOTOV

Mr. Wang Shih-Chieh
Minister of Foreign Affairs of the Chinese Republic
Moscow

II

AGREEMENT* BETWEEN THE CHINESE REPUBLIC AND THE UNION OF SOVIET SOCIALIST REPUBLICS ON THE CHINESE CHANGCHUN RAILWAY.

Signed at Moscow, on August 14, 1945

The President of the National Government of the Republic of China and the

* Came into force on August 24, 1945, by ratification, in accordance with Article 18.

Presidium of the Supreme Soviet of the USSR, being desirous of strengthening on the basis of complete regard for the rights and interests of each of the two Parties, friendly relations and economic ties between the two countries have agreed as follows:

ARTICLE 1

After the expulsion of the Japanese armed forces from the Three Eastern Provinces of China, the main trunk lines of the Chinese Eastern Railway and the South Manchurian Railway leading from the station of Manchouli to the station of Pogranichnaya and from Harbin to Dairen and Port Arthur, shall be combined to form a single railway system to be known as "Chinese Changchun Railway," and shall become the joint property of the USSR and the Chinese Republic and be jointly exploited by them. Only such lands and branch lines shall become joint property and be jointly exploited as were constructed by the Chinese Eastern Railway while it was under Russian and joint Soviet-Chinese management and by the South Manchurian Railway while under Russian management, and which are intended to serve the direct needs of those railways. Ancillary undertakings directly serving the needs of those railways and constructed during the above-mentioned periods shall also be included. All other railway branch lines, ancillary undertakings and lands will be the exclusive property of the Chinese Government. The joint exploitation of the above-mentioned railways shall be effected by a single administration under Chinese sovereignty as a purely commercial transport undertaking.

ARTICLE 2

The Contracting Parties agree that ownership of the above-mentioned railways shall be vested equally in both Parties, and shall not be transferable either in part or in whole.

ARTICLE 3

For the purpose of jointly exploiting the above-mentioned railway, the Contracting Parties agree to establish a Sino-Soviet Chinese Changchun Railway Company. The company shall have a Board of Directors consisting of ten members, five of whom will be appointed by the Chinese Government and five by the Soviet Government. The Head Office shall be at Changchun.

ARTICLE 4

The Chinese Government shall appoint from among the Chinese Directors a President and a Vice-President of the Board of Directors. The Soviet Government shall appoint from among the Soviet Directors a Deputy President and a Deputy Vice-President of the Board of Directors.

When decisions are made at board meetings the vote of the President of the Board of Directors shall count as two votes. Seven members of the Board shall form a legal quorum.

Any important question on which the Board of Directors is unable to reach agreement shall be submitted for the consideration of the Governments of the Contracting Parties for a just and friendly settlement.

ARTICLE 5

The Company shall establish a Supervisory Committee consisting of six members, three of whom shall be appointed by the Chinese Government and three by the Soviet Government. The Chairman of the Supervisory Committee shall be chosen from among the members of Soviet nationality and the Vice-Chairman from among the members of Chinese nationality. In deciding upon matters in the Supervisory Committee, the Chairman's vote shall count as two votes. Five members of the Committee shall form a legal quorum.

ARTICLE 6

For conducting the routine business, the Board of Directors shall appoint one of its Soviet members as Manager and one of its Chinese members as Deputy Manager of the Chinese Changchun Railway.

ARTICLE 7

The Supervisory Committee shall appoint a Chief Auditor and a Deputy Chief Auditor. The Chief Auditor shall be a Chinese citizen and his deputy a Soviet.

ARTICLE 8

The Chiefs and Deputy Chiefs of the Services and Departments and the Station Masters of the more important stations shall be appointed by the Board of Directors. The Manager of the Railway has the right to suggest candidates for the posts mentioned. Individual members of the Board of Directors may also suggest such candidates by agreement with the Manager of the Railway.

When the Chief of a Service or Department is a Chinese citizen, the Deupty Chief must be a Soviet citizen. When the Chief of a Service or Department is a Soviet citizen, the Deputy Chief must be a Chinese citizen.

Chinese and Soviet citizens shall be appointed Chiefs of Services and Departments, Deputy Chiefs and station masters on the principle of equal representation.

ARTICLE 9

The Chinese Government shall be responsible for the security of the railway. For the purpose of protecting the railway premises, equipment and other property, and to prevent goods in transit being destroyed, lost or stolen, the Chinese Government shall create and control a railway police force. In addition, the railway police shall maintain normal order on the railway. As to the duties of the police as provided in this Article such duties shall be determined by the Chinese Government in consultation with the Soviet Government.

ARTICLE 10

The railway shall be employed for the transport of Soviet troops only during hostilities against Japan.

The Soviet Government shall have the right to employ the railway for transporting without Customs inspection and in sealed wagons, military porperty in transit, such property to be protected by the railway police, and the Soviet Government shall not provide it with any armed escort of its own.

ARTICLE 11

Goods in transit from one Soviet station to another and goooods passing in either direction between Soviet territory and the ports of Dairen and Port Arthur shall be exempt from any duties or any kind of taxes or levies imposed by the Chinese Government. Upon arrival in Chinese territory such goods shall be liable to Customs inspection.

ARTICLE 12

The Chinese Government undertakes to supply the railway's entire requirement in coal under a special agreement.

ARTICLE 13

The railway shall be subject to Chinese Government taxes on the same footing as the Chinese State Railways.

ARTICLE 14

The Contracting Parties agree to make available to the management of the Chinese Changchun Railway the working capital stipulated in the Railway's Articles of Association.

Any profit or loss resulting from the operation of the line shall be shared equally between the Parties.

ARTICLE 15

During the month following the signing of this Agreement, the Contracting Parties will each appoint three representatives who shall in Chungking draw up the Memorandum and Articles of Association relating to the joint operation of the line. The Memorandum and Articles of Association shall be completed in two months, after which they will be submitted for the approval of both Governments.

ARTICLE 16

A Commission to be established and which shall be composed of three representatives of each Government, shall determine the assets that shall become the joint property of the USSR and the Chinese Republic and shall be jointly exploited in pursuance of Article 1 of this Agreement. The said Commission shall be established at Chnugking within a month following the signing of this present Agreement and shall finish its work and submit its proposals for the approval of both Governments not later than three months after the commencement of the joint operation of the line.

ARTICLE 17

The present Agreement shall remain in force for a period of thirty years. Thereafter the full ownership of the Chinese Changchun Railway and all its assets shall revert without charge to the Chinese Republic.

ARTICLE 18

The present Agreement shall come into force on the day of its ratification.

DONE at Moscow on 14 August 1945, corresponding to the 14th day of the month of August of the 34th year of the Chinese Republic, in two copies, each in the Chinese and Russian languages, both texts being equally authentic.

By the authority of the President of the
National Government of the
Chinese Republic
WANG SHIH-CHIEH
By Authority of the
Presidium of the Supreme
Soviet of the USSR
V. MOLOTOV

III

AGREEMENT* ON THE PORT OF DAIREN

Signed at Moscow, on August 14, 1945

Whereas a Treaty of Friendship and Alliance has been concluded between the Chinese Republic and the Union of Soviet Socialist Republics, and whereas the USSR has guaranteed to respect the sovereignty of China over the Three Eastern Provinces as an inalienable part of China, the Chinese Republic, in order to protect the interests of the Union of Soviet Socialist Republics in Dairen as a port for the import and export of goods, hereby agrees:

1. To proclaim Dairen a free port, open to trade and shipping of all countries.

2. The Chinese Government agrees to allocate docks and warehouse accommodation in the said free port to be leased to the USSR under a separate agreement.

3. The administration in Dairen will be Chinese.

The Harbor Master shall be a Soviet citizen to be appointed by the Manager of the Chinese Changchun Railway by agreement with the Mayor of the town of Dairen. The Assistant Harbor Master shall be a Chinese citizen appointed by the same procedure.

4. In peacetime, the Regulations governing the naval base as provided in the Agreement on Port Arthur of 14 August 1945 shall not apply to Dairen and it shall come under the military regime to be established in that zone only in the event of war with Japan.

5. Goods entering the said free port from abroad and proceeding via the Chinese Changchun Railway directly into the territory of the USSR, goods leaving the USSR via the same railway and entering the free port for export, and materials and equipment sent from the USSR for the construction of harbor installations shall be exempt from customs duties. The said goods must be conveyed in sealed wagons.

Goods entering China through the free port shall be subject to Chinese import duties. Goods exported from other parts of China and entering the free port will be subject to export duties for as long as such duties continue to be levied in China.

6. The present Agreement shall remain in force for a period of 30 years.

7. The present Agreement shall come in force on the day of its ratification.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Agreement and have affixed their seals thereto.

DONE at Moscow on 14 August 1945, corresponding to the 14th day of the month of August of the 34th year of the Chinese Republic, in two copies, each in the Chinese and Russian languages, both texts being equally authentic.

By authority of the President of the
National Government of the
Chinese Republic
WANG SHIH-CHIEH

By Authority of the
Presidium of the Supreme
Soviet of the USSR
V. MOLOTOV

PROTOCOL

1. The Government of China when requested to do so by the Soviet Union shall grant the Soviet Union, freely and without consideration, a 30 years' lease of one-half of all harbor installations and equipment, the other half of the harbor installations and equipment remaining the property of China.

Any extension and improvement of the harbor facilities shall be carried out by agreement between China and the USSR.

2. It is agreed that all sections of the Chinese Changchun Railway located within the boundaries of the Port Arthur naval base area and connecting Dairen with Mukden will not be subject to any kind of military supervision or control established in that area.

By authority of the President of the
National Government of the
Chinese Republic
WANG SHIH-CHIEH

By Authority of the
Presidium of the Supreme
Soviet of the USSR
V. MOLOTOV

* Came into force on August 24, 1945, by ratification, in accordance with paragraph 7.

IV

AGREEMENT* ON PORT ARTHUR.

Signed at Moscow, on August 14, 1945

In acordance with the Sino-Soviet Treaty of Friendship and Alliance and as an addition thereto, both Contracting Parties have agreed on the following:

1. In order to strengthen the security of China and the USSR and prevent a repetition of aggression on the part of Japan, the Government of the Chinese Republic agrees to the joint use by both Contracting Parties of Port Arthur as a naval base.

2. The exact bounds of the area of the naval base referred to in the foregoing paragraph are established in the description and map hereto annexed.

3. The Contracting Parties have agreed to make Port Arthur a naval base only, to be used and be made available to the warships and commerical vessels of China and the USSR only.

A Sino-Soviet Military Commission, consisting of two Chinese and three Soviet representatives will be established to deal with questions arising in connection with the joint use of the aforementioned naval base. The chairman of the Commision shall be appointed by the Soviet authorities and the vice-chairman by the Chinese authorities.

4. The defence of the aforementioned naval base shall be entrusted by the Government of China to the Government of the USSR. For purposes of such defence of the naval base, the Government of the USSR shall erect there the necessary installations, the expense of which shall be borne by the Government of the USSR.

5. The civil administration in the area concerned will be Chinese, but the interests of the USSR will be taken into account when appointments to responsible positions in the said area are made by the Chinese Government. The civil administration in the town of Port Arthur shall be appointed and dismissed by the Chinese Government in agreement with the Soviet Military Command.

Suggestions designed to ensure security and defence, which the Soviet Military Command in this area may make to the Chinese civil administration, shall be carried out by the said administration. In controversial cases the questions shall be submitted for consideration and decision to the Sino-Soviet Military Commission.

6. The Government of the USSR has the right to maintain its own military, naval and air forces in the area mentioned in Article 2 and to determine their disposition.

7. At the same time the Soviet Government shall be responsible for the placing or establishment and maintenance of lights, signals and other equipment necessary for the safety of shipping in the area concerned.

8. On the expiry of the present Agreement all equipment and public property placed by the USSR in the area concerned shall be transferred freely and without consideration to Chinese Government ownership.

9. The present Agreement shall remain in force for a period of thirty years.

The Agreement shall come into force on the day of its ratification.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Agreement and have affixed their seals thereto.

DONE at Moscow on 14 August 1945, corresponding to the 14th day of the month of August of the 34th year of the Chinese Republic, in two copies, each in the Chinese and Russian languages, both texts being equally authentic.

By authority of the President of the
National Government of the
Chinese Republic
WANG SHIH-CHIEH

By Authority of the
Presidium of the Supreme
Soviet of the USSR
V. MOLOTOV

ANNEX

The territory of the naval base zone, as provided in Article 2 of the Agreement on Port Arthur, lies to the south of a line beginning on the west coast of the Liaotung Peninsula south of Hou-san-tao-wan and running in a generally easterly direction through the station Shih-ho and point Tsou-chia-chu-tzu to the east coast of the peninsula, but excluding the town of Dalny (Dairen).

All islands in the waters adjoining the western seacoast of the area on the Liaotung Peninsula defined by the Agreement, and to the south of a line passing through the points whose latitude is north 39° and longitude east 120° 49′ and latitude north 39° 20′ and longitude east 121° 31′ respectively, thence in a generally northeasterly direction along the central line of the fairway leading to the port of P'ulan-tien and to land point of beginning, shall be included in the area of the naval base.

All islands in the waters adjoining the eastern seacoast of the area on the Liaotung Peninsula and south of a line running east from the final land point to a point whose latitude is north 39° 20′, longitude east 123° 08′, thence southeast through a point whose latitude is north 39° and longitude east 123° 16′ shall be included in the area.

The metes and bounds of the area shall be demarcated on the spot by a mixed Sino-Soviet Commission. The Commission shall place boundary marks in the water; plant stakes when necessary; draw up a detailed description of such a boundary line; delineate it on a topographic map drawn to a scale of 1:25,000; and trace

* Came into force on August 24, 1945, by ratification, in accordance with paragraph 9.

the boundary line across the surrounding waters on a naval chart on the scale of 1:300,000.

The date on which the Commission shall commence its work shall be fixed by a special agreement between the Parties.

The descriptions of the boundary line of the area drawn up by the aforesaid Commission and the maps of this line shall be subject to confirmation by both Governments.

WANG SHIH-CHIEH V. MOLOTOV

V

AGREEMENT* ON RELATIONS BETWEEN THE SOVIET COMMANDER-IN-CHIEF AND THE CHINESE ADMINISTRATION FOLLOWING THE ENTRY OF SOVIET FORCES INTO THE TERRITORY OF THE THREE EASTERN PROVINCES OF CHINA IN CONNECTION WITH THE PRESENT JOINT WAR AGAINST JAPAN.

Signed at Moscow, on August 14, 1945

The President of the National Government of the Chinese Republic and the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics, being desirous that after the entry of Soviet forces into the territory of the Three Eastern Provinces of China in connection with the present joint war of China and the USSR against Japan, relations between the Soviet Commander-in-Chief and the Chinese administration conform with the spirit of friendship and alliance existing between both countries, have agreed on the following:

1. After the entry, as a result of military operations, of Soviet troops into the territory of the Three Eastern Provinces of China, the supreme authority and responsibility in the zone of military activity in all matters relating to the conduct of the war shall, during the period necessary for conducting such operations, be vested in the Commander-in-Chief of the Soviet Armed Forces.

2. A representative of the National Government of the Chinese Republic and a staff shall be appointed in any recaptured territory, who shall:

(*a*) Organize and control, in accordance with the laws of China, the administration on the territory freed from the enemy;

(*b*) Assist in establishing co-operation in restored territories between the Chinese armed forces, whether regular or irregular, and the Soviet armed forces;

(*c*) Ensure the active collaboration of the Chinese administration with the Soviet Commander-in-Chief and, in particular, issue corresponding instructions to the local authorities, being guided by the requirements and desires of the Soviet Commander-in-Chief.

3. A Chinese Military Mission shall be appointed to the Headquarters of the Soviet Commander-in-Chief for the purpose of maintaining contact between the Soviet Commander-in-Chief and the representative of the National Government of the Chinese Republic.

4. In zones that are under the supreme authority of the Soviet Commander-in-Chief, the administration of the National Government of the Chinese Republic for restored territories shall maintain contact with the Soviet Commander-in-Chief through a representative of the National Government of the Chinese Republic.

5. As soon as any part of a recaptured territory ceases to be a zone of direct military operations, the National Government of the Chinese Republic shall assume complete power in respect of civil affairs and shall render the Soviet Commander-in-Chief all assistance and support through its civil and military organs.

6. All members of the Soviet armed forces on Chinese territory shall be under the jurisdiction of the Soviet Commander-in-Chief. All Chinese citizens, whether civil or military, shall be under Chinese jurisdiction. This jurisdiction will also extend to the civilian population in Chinese territory, even in cases involving criminal acts and misdemeanors committed against the Soviet armed forces, except when criminal acts and misdemeanors are committed in the zone of military operations and are subject to the jurisdiction of the Soviet Commander-in-Chief. In controversial cases, the matter shall be decided by mutual agreement between the Soviet Commander-in-Chief and the Representative of the National Government of the Chinese Republic.

7. A separate agreement shall be concluded relating to financial questions arising out of the entry of Soviet forces into the territory of the Three Eastern Provinces of China.

8. The present Agreement shall come into force immediately upon ratification of the Treaty of Friendship and Alliance between China and the USSR which was signed this day.

DONE at Moscow on 14 August 1945, corresponding to the 14th day of the month of August of the 34th year of the Chinese Republic, in two copies, each in the Chinese and Russian languages, both texts being equally authentic.

By authority of the President of the National Government of the Chinese Republic
WANG SHIH-CHIEH

By authority of the Presidium of the Supreme Soviet of the USSR
V. MOLOTOV

* Came into force on August 24, 1945, upon the ratification of the Treaty of Friendship and Alliance, in accordance with paragraph 8 of the Agreement.

MINUTES

At the fifth meeting between Generalissimo Stalin and Mr. T. V. Soong, President of the Executive Yuan, which took place on 11 July 1945, the question of the evacuation of Soviet forces from Chinese territory after participation of the USSR in the war against Japan was discussed. Generalissimo Stalin declined to include in the Agreement on the Entry of Soviet Forces into the Territory of the Three Eastern Provinces any provision for the evacuation of Soviet troops within three months following the defeat of Japan. Generalissimo Stalin stated, however, that the Soviet forces would begin to be withdrawn within three weeks after the capitulation of Japan.

Mr. T. V. Soong asked how much time would be required to complete the evacuation. Generalissimo Stalin stated that in his opinion the evacuation of troops could be completed within a period of not exceeding two months. Mr. T. V. Soong again asked whether the evacuation would really be completed within three months. Generalissimo Stalin stated that three months would be a maximum period sufficient for the completion of the withdrawal of troops.

WANG SHIH-CHIEH V. MOLOTOV

Withdrawal of Soviet Troops from the Northeast—Six days before the signing of the Treaty of Friendship and Alliance, the U.S.S.R. declared war on Japan on August 8, 1945. The Soviet Army entered Manchuria on August 9 and engaged in battle with the Japanese forces. After the unconditional surrender of Japan on August 14, the Japanese troops in Manchuria were disarmed by the Soviets. On September 3, 1945, the official Japanese surrender was signed.

According to Generalissimo Stalin's commitment to Dr. T. V. Soong in their meeting on July 11, 1945 in Moscow, Soviet troops in China's Northeastern Provinces were to withdraw within three weeks and to complete the withdrawal within three months. But the evacuation was delayed time and again. On December 31, 1945, the Chinese and Soviet governments agreed to set the date of complete withdrawal at February 1, 1946. The Chinese Government, however, did not receive any report to that effect until May 24, 1946. On that day, a note was received from the Soviet Ambassador to China, indicating that the Red Army had been completely withdrawn from the Northeastern Provinces by May 3. In the meantime, Chinese Communists had entered the Northeast and had taken over key cities in the area.

Soviet Troops' Acts of Violence in the Northeast—The Chinese Government had received reports regarding acts of violence committed by Soviet troops during their stay in the Northeast. Cases of murder, robbery and other outrages committed against Chinese Nationals had been reported. On June 19, 1946, the Ministry of Foreign Affairs listed 455 major cases and forwarded them to the Soviet Government asking that the guilty ones be punished and that compensation be given to the victims or their relatives. Since the Soviet authorities showed indifference to the matter, the Chinese Government sent an *aide memoire* on November 15, 1946 asking for prompt measures for the settlement of the cases. The Soviet Government had not, up to the end of 1949, given any reply.

About Port Arthur and Dairen—After the Japanese surrender Soviet troops occupied Port Arthur and Dairen. From October, 1945 to June, 1947, the Chinese Government had repeatedly requested the Soviet Government to return the administration of these two territories to China, in accordance with the Sino-Soviet Treaty of August, 1945. But these requests were all turned down by the Soviet Government which refused the entry of Chinese troops and administrative personnel into Port Arthur and Dairen. During the negotiations, the Chinese Communist party rapidly built up an armed force in the vicinity of Port Arthur and Dairen, thus constituting a strong impediment to the take-over of Port Arthur and Dairen by the Chinese Government.

Early in 1947, the Chinese Government sent an inspection mission under General Tung Yen-ping to Port Arthur and Dairen. The reports of this mission clearly indicated that without the protection of Chinese troops and police, it would be impossible for Chinese administrative personnel to perform their functions in Port Arthur and Dairen.

The Ministry of Foreign Affairs issued on June 25, 1947, a communique on the negotiations with the U.S.S.R. concerning the take-over of Port Arthur and

Dairen. Text of the communique follows:

1. Immediately upon the surrender of Japan, the Chinese Government in preparation for the take-over of the Northeastern Provinces decided to despatch troops to Dairen to re-establish Chinese administration in Port Arthur and Dairen. This was, however, strongly opposed by the Soviet Government on the ground that Dairen was to be made a free port. The Chinese Government was thus prevented from realizing the first step toward the take-over of the administration of Port Arthur and Dairen in accordance with the Sino-Soviet Treaty of August 1945.

It will be recalled that the declaration of Dairen as a free port under the Treaty signifies that commodities in transit through that port should be exempt from duty and has no bearing whatever on the question of the stationing of Chinese troops in that port. That the administration in Dairen should belong to China is explicitly provided in the Treaty. The Treaty in no way restricts the right of the Chinese Government to send troops to Dairen. The *Waichiaopu* therefore took serious exception to the aforementioned view of the Soviet Government.

2. Owing to the obstacles thus interposed by the Soviet Government, Chinese troops could not be sent to Dairen in October 1945 and the Chinese Government was unable to proceed with the take-over of the administration of Port Arthur and Dairen. Since that date the Chinese Communists have rapidly built up an armed force in the vicinity of Port Arthur and Dairen. The existence and expansion of this Anti-Government force have constituted a strong impediment to the take-over of Port Arthur and Dairen by the Chinese Government from the main land.

3. In March this year, the Soviet Government expressed to the Chinese Government the hope that the Chinese Government might set up its administrative authority in Port Arthur and Dairen. The Chinese Government in reply again made it clear that it was because of the above-mentioned obstacles that the Chinese Government had not been able to take over the administration of Port Arthur and Dairen.

4. During the last three months, the Chinese Government has repeatedly taken up this matter with the Soviet Government. It was stated by the Soviet Government that no anti-Chinese-Government forces existed in the entire region of Dairen and the Port Arthur Naval Base; that the Soviet Government would ensure the safety of the personnel sent to Dairen and Port Arthur by the Chinese Government as well as liberty of action in the discharge of their duties; and that questions as to the number of police to be sent by the Chinese Government to Port Arthur and the places where they were to be quartered should be discussed and decided on the spot by Soviet and Chinese officials. The Soviet Government stated however that it could not agree to the despatch of Chinese troops to the Port Arthur Naval Base because the defense of that naval base had been entrusted by the Treaty to the Soviet Government. As regards Dairen, the Soviet Government stated that while it would permit Chinese police to enter that city, provided their number and the places where they should be quartered were agreed upon between the two parties, it could not agree to the entry of Chinese troops into Dairen on the ground that the state of war against Japan had not yet been terminated, and Dairen should therefore still be subject to the military supervision established in the Port Arthur Naval Base Area.

In the opinion of the *Waichiaopu* the Chinese Government is fully entitled to send troops to Port Arthur and maintain them there, for, according to the Sino-Soviet Treaty the entire Port Arthur Naval Base Area is set aside for the "joint use" of the two countries. The Chinese Government therefore cannot accept the Soviet interpretation in this particular.

As to the stationing of Chinese troops in Dairen, while it is true that the Sino-Soviet Treaty subjects that city to the military supervision of the Port Arthur Naval Base Area "in case of war against Japan," it is undeniable that Japan has for more than a year been under Allied occupation following her unconditional surrender and that the "war against Japan" no longer in actuality exists. And even "in case of war against Japan" the Chinese Government is not precluded by any provision of the Sino-Soviet Treaty from sending its troops to Dairen. Moreover, the "military supervision" of the Port Arthur Naval Base Area over Dairen even "in case of war against Japan" should be confined to the fulfillment of the requirement of joint prosecution of the war by China and the U.S.S.R. The sending of Chinese troops to Darien to protect the administration and ensure its safety could not be considered in any case as detrimental to a joint prosecution of war against Japan. For these reasons, the Chinese Government has repeatedly expressed in writing its inability to accept

the views of the Soviet Government and requested that the Soviet Government adopt a friendly attitude of understanding and cooperation toward the decision of the Chinese Government to station troops in Dairen. Furthermore, in the present circumstances the regions of Port Arthur and Dairen are at any moment open to the menace and attacks of anti-Government armed forces in the vicinity. In order to ensure the safety and freedom of its administrative personnel in the region, the Chinese Government, over and above its treaty right, has the actual need of sending troops to Dairen. It is a matter of regret that this has not yet been assented to by the Soviet Government.

5. While continuing to thresh out the matter with the Soviet Government, the Chinese Government recently despatched an Inspection Mission under General Tung Yen-ping to Port Arthur and Dairen as a preparatory step toward the restoration of Chinese administrative authority in those regions. Before the departure of this group the Chinese Government had obtained the agreement of the Soviet Government, and its assurance of full assistance to be given to the Mission as well as of freedom of action in the discharge of their duties. But, after arrival in Port Arthur, the Mission did not receive the promised assistance. Together with the obstructions from the so-called "Local Administration," this had made it impossible for the Mission to carry out their plans of inspection. The result of this trip again shows that Chinese administrative personnel cannot hope to perform their functions without the presence and protection of an adequate force of Chinese troops and police in Port Arthur and Dairen.

6. In short, the failure of the Chinese Government thus far to take over Port Arthur and Dairen has been due to two factors: (1) the repeated refusal of the Soviet Government to agree to the stationing of Chinese troops in Port Arthur and Dairen and (2) the formation by the Chinese Communists of strongly armed forces in the vicinity of Port Arthur and Dairen to hinder the take-over of these regions by the Chinese Government, the existence of such armed forces having resulted from the first refusal in October 1945 of the Soviet Government to agree to the landing of Chinese troops in Dairen.

The Chinese Government is now constrained to call the serious attention of the Soviet Government to its fundamental obligations under the two following provisions of an Exchange of Notes forming part of the Sino-Soviet Treaty:

(1) ". . . the Government of the U.S.S.R. agrees to render to China moral support and aid in military supplies and other material resources, such support and aid to be entirely given to the National Government as the Central Government of China."

(2) ". . . the Government of the U.S.S.R. regards the Three Eastern Provinces as part of China and reaffirms its respect for China's full sovereignty over the Three Eastern Provinces and recognizes their territorial and administrative integrity."

The Chinese Government sincerely hopes that the Soviet Government, mindful of its obligations mentioned above, will refrain from further employment of such unjustifiable interpretations of the Treaty as to undermine the sovereignty and administrative integrity of China and hinder her work of taking over the administration of the Port Arthur area and Dairen. The Chinese Government, prompted by its earnest desire for friendly understanding and cooperation, will continue to seek an agreement with the Soviet Government. At the same time, the Chinese Government wishes hereby to declare that, since the right of China to despatch troops and police to the Port Arthur area and Dairen is not restricted by treaty provisions, the Chinese Government is free at any time to decide on the exercise of this right.

Nanking, June 25, 1947.

In August 1947, in view of the Soviet occupation of Dairen and the failure of the Soviet Government to fulfill its agreement to open Dairen as a free port, the Chinese Government issued a declaration to close the Dairen harbor, forbidding entry of all foreign vessels.

Repatriation of Russian Citizens in China—On June 30, 1947, the Soviet Government sent a memorandum to the Chinese Ministry of Foreign Affairs asking the Chinese Government to give assistance to the repatriation of 3,000 families and 150 orphans of Russian residents in China. The request was readily accepted by the Chinese Government. The Soviet ships for the repatriation came to Shanghai at the beginning of August. From August 10, 1947, to the end of the year, a total of 5,449 Soviet repatriates had left China.

Sino-Soviet Airline Agreement—The Chinese Government declared on September 2, 1948 that China had notified the Soviet Government of her desire to discontinue the Sino-Soviet airline agreement covering the Alma Ata-Hami route which was due to expire in September,

1949. The notification was made in accordance with the terms of the agreement providing that either party can notify the other of its desire to discontinue the pact one year in advance.

However, after negotiations, the agreement has been prolonged for another five years, as announced on June 1, 1949.

Severance of Relations with U.S.S.R.—After the Soviet recognition of the Chinese Communist regime on October 2, 1949, the Chinese Government severed diplomatic relations with the U.S.S.R.* (The communist regime, called the "People's Central Government of the People's Republic of China," was established in Peiping on October 1, 1949).

Dr. George K. C. Yeh, Minister of Foreign Affairs, summoned the Soviet Charge d'Affairs, Vladimir Varskov, to the Ministry of Foreign Affairs in Canton on October 3, 1949, and informed the latter of the decision of the Chinese Government to discontinue diplomatic relations with U.S.S.R. The Soviet Government informed the Chinese Charge d'Affairs in Moscow on October 2 that the Soviet Government would discontinue its diplomatic relations with the Chinese Government upon the recognition of the "People's Republic of China" in Peiping.

On October 3, Acting President Li Tsung-jen, in a statement to the nation, appealed to the friendly powers not to recognize the Peiping regime. He said: **"The Chinese Communists have at all times been receiving orders from the Soviet Union. This has been repeatedly confessed by Mao Tse-tung himself. Our friendly nations ought to have a correct understanding of the current situation in China. If China should be entirely thrown under communist rule, the world's free and democratic forces and the entire mankind would be threatened.**

"We wish to declare emphatically that any diplomatic relations established with the puppet regime in Peiping by any power will be taken as an unfriendly act toward China."

RELATIONS WITH FRANCE

Relinquishment of Extraterritorial Rights—On February 28, 1946, France signed a treaty with China for the relinquishment of her extraterritorial and related rights in China. The treaty, which consists of 13 articles, was signed in Chungking by Dr. Wang Shih-chieh, Minister of Foreign Affairs, and M. Jacques Meyrier, French Ambassador to China.

Agreement on Relations in Indo-China—The Sino-French Agreement on Relations in Indo-China was signed at Chungking on February 28, 1946, by Dr. Wang Shih-chieh, Minister of Foreign Affairs, and M. Jacques Meyrier, French Ambassador to China. The provisions of the agreement are divided into four parts. They are: (1) Conditions of Establishment, regarding the status, privileges, exemptions, and obligations of Chinese citizens residing in Indo-China; (2) International Transit, regarding the collection of duties and Custom control in connection with the import and export between the two countries; (3) Sino-Indo-Chinese Commerce, regarding the trading relations between the two countries; and (4) Yunnan-Indo-China Railway, regarding the return of ownership of the Chinese section of the railway to China.

Conference for the Implementation of the Agreement on Relations in Indo-China—After the signing of the Sino-French Agreement on Relations In Indo-China, the Chinese and French Governments discussed ways of implementing the provisions of the agreement. The most important items included: (1) The return of the Chinese section of the Yunnan-Indo-China railway to China; (2) The demarcation of a special district in Haiphong; and (3) The disposition of Japanese property in north Indo-China. In November, 1946, the Chinese delegation, headed by Ling Chi-han and the French delegation headed by Henry Maux, held the first conference. But owing to the uncertain situation in Indo-China resulting in difficulties in obtaining data for reference, the conference was postponed indefinitely after several meetings.

French Economic Mission to China—The French Economic Mission, headed by Henry Maux, arrived in Nanking on November 6, 1946, with a view to reaching a commercial treaty with the Chinese Government. But on account of the conflict in Indo-China, the Chinese Government considered it premature to reach an accord on the exchange of goods. China, however, expressed the desire to exchange goods with France on provisional terms pending the conclusion of a long-range agreement.

Losses Suffered by Chinese Citizens During Indo-China Conflict—The large-scale armed conflict between Indo-Chinese and French authorities, started by the Haiphong smuggling case on November 20, 1946, affected the safety of more than 500,000 Chinese in Indo-China.

The Chinese Government repeatedly declared its neutral position in the strife and instructed Yuen Tse-kien, Consul-General in Hanoi, to that effect. A safety zone for the concentration of Chinese residents was consequently marked out in Hanoi. Early in 1948, when Cochin China was threatened with war, a similar zone was marked out, in Saigon.

For the losses suffered by the Chinese in other areas, the Chinese Ministry of Foreign Affairs sent a request to the French authorities for compensation. The French agreed to compensate Chinese losses in Tan Huong, Gia Dinh, Phu Tho, Vung Lien and An Yang.

Abolition of Special Tax for Asiatics—On October 1, 1931, on account of the increasing immigration of Chinese traders into the Society islands in the southern Pacific, the local authorities announced the imposition of a special tax on business licenses issued to the Chinese. The tax became known as the Special Tax for Asiatics. In Madagascar Island, off the east coast of Africa, the original ruling discriminating against the Africans and Asiatics by tax was revised on November 30, 1905, giving the Chinese citizens there a heavy burden of tax. Following a Chinese protest, an agreement was reached whereby the special tax in different French possessions was abolished. This took effect in Tahiti on October 27, 1947, and in Madagascar early in 1948.

RELATIONS WITH AUSTRALIA, CANADA AND NEW ZEALAND

Australia

Diplomatic Missions—China and Australia agreed on February 16, 1948 to elevate the status of their respective diplomatic missions to that of an embassy.

On May 19, 1948, the Chinese Government appointed Kan Nai-kuang as Ambassador to Australia.

Canada

Relinquishment of Canadian Extraterritorial Rights in China—The Sino-Canadian Treaty for the relinquishment of extraterritorial rights in China was signed in Ottawa on April 14, 1944, by Ambassador Liu Shih-shun and Prime Minister MacKenzie King. Ratifications of the new treaty were exchanged in Chungking on April 3, 1945, between Dr. T. V. Soong and Canadian Ambassador General Victor Odlum.

$60-million Credit—On February 7, 1946, an agreement was signed between Liu Shih-shun, Chinese Ambassador to Canada, and Dr. James L. Illsley, Canadian Minister of Finance, for a loan of Canadian $60-million for the purchase by the Chinese Government from Canada of wheat, wheat flour, and materials for the building of railroads, ships, and other communications facilities. It was stipulated in the agreement that China should return the loan, principal and interest, before the end of 1977.

Liu Chieh Appointed Ambassador—On May 29, 1947, the Chinese Government appointed Liu Chieh as Ambassador to Canada, succeeding Dr. Liu Shih-shun who was made Vice-Minister of Foreign Affairs. Ambassador Liu presented his credentials at Ottawa on June 7, 1947.

New Zealand

New Immigration Regulations—On December 13, 1944, the General Assembly of New Zealand abolished the discriminatory clauses in the Immigration Law of New Zealand which earlier had been imposed upon Chinese seeking entry into the country.

Chinese Engineers Invited—On January 28, 1948, in a letter to Dr. Wang Shih-chieh, Minister of Foreign Affairs, Mr. Peter Fraser, Prime Minister of New Zealand, proposed that China send six engineers to New Zealand for practice for a year or two at the expense of the Government of New Zealand. The proposal was accepted by the Chinese Government.

RELATIONS WITH ASIATIC COUNTRIES

Burma

Burmese Independence—Burma gained her independence on April 1, 1948. The Chinese Government sent Dr. George K. C. Yeh, Vice-Minister of Foreign Affairs, as special envoy to extend congratulations. As a token of close friendship between Burma and China, the Burmese Government presented to the Chinese Government the first national flag of independent Burma hoisted in Burma.

Exchange of Diplomatic Missions—After the Chinese and Burmese Governments agreed to exchange their diplomatic missions on September 10, 1947, the Chinese Government appointed Tu Yun-tan as first Ambassador to Burma. Ambassador Tu presented his credentials on March 3, 1948. The first Burmese Ambassador to China, U. Myint Thein, presented his credentials on February 7, 1948.

* Up to December 31, 1949, the Chinese Government has severed relations with Albania, Byelorussia, Burma, Czechoslovakia, Hungary, India, Poland, Rumania, Ukranian S. S. R., U.S.S.R., and Yugoslovakia.

Question of Boundary Demarcation between China and Burma

(1) The Southern Section—On June 18, 1941, the Chinese and British Governments signed in Chungking an agreement delimiting the southern section of the national boundary of China and Burma and providing that both parties were to set up landmarks by the end of the year. On the outbreak of the Pacific War, the two governments agreed to postpone the work of delimitation. In October, 1947, China suggested to Great Britain that the demarcation work be carried out at the end of the year but the British Government considered it outside its provinces to make such a decision, as Burma was being granted independence. On December 16, in a reply to the Chinese Government, the Burmese Government agreed to carry out the provisions of the Sino-British agreement in the second half of 1948.

(2) The Northern Section—On November 25, 1947, the Chinese Ministry of Interior asserted in a statement that the undelimitated frontier of China should include territories west of the Kaolikung mountain and east of Patkai hills such as the Triangle and Hukawang valley. On November 28, the spokesman of the Burmese Government declared that the territories mentioned in the Chinese statement were a part of British Burma which would be considered a part of independent Burma after April 1, 1948.

Regarding the divergence of views on this question, the Chinese Ministry of Foreign Affairs, on December 1, 1947, issued the following statement:

"The question of boundary demarcation between British Burma and China's Yunnan province was covered in the Treaty of 1894 between Great Britain and China. Article 4 of this Treaty stipulates that 'the settlement and delimitation of that portion of the frontier north of Latitude 25° 35′ N. shall be reserved for a future understanding between the High Contracting Parties, when the features and conditions of the country are more accurately known.' This undelimited frontier territory as described in the said Treaty covers the area north of Chien-kao-shan ('the high conical peak'), near Tengchung. Repeated subsequent discussions between Great Britain and China failed to produce an agreement. The latest effort towards a settlement was made in August 1941, when the Chinese Ministry of Foreign Affairs suggested once again to the British Ambassador to China that negotiations might be resumed in an amicable and conciliatory spirit, looking toward an early settlement. The British Ambassador replied on November 17, 1941, saying that the proposal had been referred to His Majesty's Government in the United Kingdom and to the Burma Government for consideration, and that as soon as he heard from them a definite reply would be given. Unfortunately, war broke out in the Pacific in the meantime, and Burma soon fell into enemy hands. The Chinese Government has not since heard further from the British Government on this matter.

"The forthcoming independence of Burma is received by the Chinese Government and people with profound gratification. They believe that China and independent Burma, in an amicable and cooperative spirit, through proper diplomatic channels in accordance with treaty provisions and international law, would find a mutually satisfactory solution to this question.

"Any unilaterial action or pronouncement from whatever sources of either side obviously cannot be considered as binding on the other party."

Severance of Diplomatic Relations—The Chinese Government severed diplomatic relations with Burma on December 18, 1949, following Burma's recognition of the Chinese Communist regime in Peiping on the preceding day.

CEYLON

Ceylon gained her dominion status on February 4, 1948. On February 9, 1948, the Chinese Government sent Lo Chia-lun, Ambassador to India, to Ceylon to participate in the ten-day celebration ceremony.

INDIA

Diplomatic Missions—China and India agreed to elevate the status of their respective diplomatic missions to that of an embassy when India obtained her dominion status after World War II. The Office of Chinese High Commissioner to India was changed into Chinese Embassy in India on November 18, 1946. Lo Chia-lun, first Chinese Ambassador to India, presented his credentials to Viscount Louis Mountbatten, Viceroy of India, on May 16, 1947. K. P. Menon, Agent-General for India in China, was promoted to be India's first Ambassador to China on March 29, 1947. He was succeeded by Sarkar K. M. Panikkar who presented his credentials to President Chiang Kai-shek on April 17, 1948.

India's Independence Day—India gained her independence on August 15, 1947 with the establishment of the Union of India at New Delhi. Lo Chia-lun, Chinese Ambassador to India, participated in the inaugural ceremony. At the flag-raising ceremony held at the Indian Embassy in Nanking on the same day, Dr. Wang Shih-chieh, Minister of Foreign Affairs, made the following address:

"It gives me particular pleasure to be present, on this auspicious occasion, to celebrate India's Day of Freedom. I wish to extend to Your Excellency and your great country my heartiest congratulations.

"China has always been sympathetic with India's struggle for freedom. In 1942 when Generalissimo Chiang Kai-shek visited India, he expressed the hope for India's political future in the following words:

"'I sincerely hope and I confidently believe that our ally, Great Britain, without waiting for any demands on the part of the people of India, will, as speedily as possible, give them real political power so that they may be in a position further to develop their spiritual and material strength and thus realize that their participation in the war is not merely an aid to the anti-aggresion nations for securing victory, but also a turning point in their struggle for India's Independence.'

"This hope of the Generalissimo is now fulfilled. The whole Chinese nation rejoices with India and also with him.

"On this happy day, we must pay our special tribute to Mahatma Gandhi, Pandit Jawaharlal Nehru and their colleagues. During their thirty years of unceasing struggle for India's independence, they encountered almost insurmountable difficulties. Outside India, their trials and perils have made a deeper impression on the Chinese people than in any other country. I firmly believe that, now that India has won her independence, she will enter into a new era of splendid efforts and achievements in the annals of the family of nations as well as of India herself.

"For over 2,000 years China and India have been linked by cultural ties. Their relations have never been marred by hostility or strife, an almost unique record in history. More recently China and India passed through a period of close comradeship in arms against aggression. The desire for international cooperation and world peace on the part of India and China have been clearly demonstrated in their actions in the United Nations.

"Sharing the same ideas and working together for peace, justice and progress, these two sister countries, I am confident, will not only be the best safeguard for the stability of Asia, but are also bound to exert a determining influence on the peace of the world and the welfare of mankind."

China Sends Condolence on Gandhi's Death—Upon the assassination of Mohandas K. Gandhi, the saint of India, on January 30, 1948, Dr. Lo Chia-lun, Chinese Ambassador to India, made a personal call on Prime Minister Nehru to convey the regrets and condolence of the Chinese Government. After that, he went to Birla House to pay homage to the body of the spiritual leader of India. On the following day, Ambassador Lo was the only foreign diplomat present in the funeral procession.

Messages of condolence were sent to Prime Minister Nehru by President and Madame Chiang Kai-shek, Premier Chang Chun, and Foreign Minister Wang Shih-chieh. President and Madame Chiang's message read:

"We are stunned and deeply grieved at Mr. Gandhi's assassination. It is indeed a heartbreaking world tragedy that the gentle saintly crusador of peace through non-violence should fall victim of violence. To you, to his family, to the Congress Party and to the Indian people, the Chinese people and we send heartfelt sympathy."

Severance of Diplomatic Relations—Diplomatic relations between the Chinese and Indian Governments were broken on December 30, 1949 when the Indian Government accorded diplomatic recognition to the Chinese Communist regime in Peiping.

KOREA

Independence of Korea—The independence of Korea has always been a great concern of the Chinese Government. Such a concern was explicitly expressed by Generalissimo Chiang Kai-shek at the Cairo Conference in 1943, in which it was decided by the three Allies that Korea should become free and independent after the war. At the Big Three Foreign Ministers' Conference in Moscow in December, 1945 an agreement was reached to place Korea under Allied tutelage and trusteeship for five years. It was China that proposed that the period of trusteeship should be as short as possible.

In March, 1946, a joint commission was formed by the United States and U.S.S.R.

to discuss the organization of a provisional government for Korea. On May 16, the discussions broke down. The meeting was resumed on May 20, 1947 but came to a stalemate in August. On August 29, the United States called on the Soviet Union to agree to a conference among the United States, Britain, U.S.S.R. and China to discuss the question of a united, independent Korea. To this U.S.S.R. did not agree. The American proposal was similar to that of the Chinese Government contained in a letter sent by Dr. Wang Shih-chieh, Minister of Foreign Affairs, to General George C. Marshall, U. S. Secretary of State, on May 14, 1947. Following is the text of Minister Wang's letter:

Dear General Marshall:

I am in receipt of a copy of your note addressed to M. Molotov dated April 8 on the situation in Korea, for which I thank you. On behalf of my Government I have the honor to state the following views on the subject of Korea.

The future of Korea is a matter of deep concern and vital interest to China. The Chinese people and Government have always held that the Korean people should be given independence at the earliest possible date. We regret to observe, however, that in spite of the long lapse of time since the defeat of Japan no Government of the Korean people has yet been set up. We strongly urge, therefore, that there should be no further delay in bringing into existence and operation of such a government. In order not to delay further the realization of the aspirations of the Korean people in their long struggle for freedom and independence, it is our view that full consultation should take place among U. S. A., U. S. S. R., Great Britain and China, who are parties to the Moscow Agreement of December 1945 on Korea, if the occupying powers cannot reach an agreement soon on this matter.

I am instructing the Chinese Ambassador in Moscow to furnish copies of this note to M. Molotov and Mr. Bevin.

(Signed) WANG Shih-chieh

On November 5, 1947, the United Nations decided to form the United Nations Temporary Commission on Korea to supervise the establishment of an independent Korean Government. The representatives of the commission arrived in Seoul on January 9, 1948. On March 12 the commission adopted a resolution to supervise a free general election in south Korea. In May, the election took place. The Chinese Government accorded on August 13, 1948 provisional recognition to the new Government of Korea and appointed Liu Yu-wan as China's diplomatic representative with the rank of an ambassador. In July, 1949, Shao Yu-lin was appointed Ambassador to Korea.

Chiang-Rhee Chinkai Talks—Following his conference with President E. Quirino in July on the formation of a Pacific Union against communism, Generalissimo Chiang Kai-shek visted Chinkai, south Korea, on August 6-8, 1949 to confer with President Syngman Rhee of Korea.

On August 8, 1949, Generalissimo Chiang and President Rhee issued the following joint statement in Chinkai:

"We both recognize that the menace of international communism, incompatible with human freedom and national independence, must be eradicated, and to combat this common threat we must fight collectively as well as individually. Security can only be strengthened by solidarity.

"We are strongly of the opinion that countries of the Pacific in general and Far Eastern countries in particular are facing a greater danger from international communism today than any other part of the world.

"We have arrived at full agreement concerning the idea of a union as set forth in the joint statement issued by President Quirino and Generalissimo Chiang Kai-shek on July 12, 1949, at Baguio, in the Philippines.

"We both agreed, further, that the President of the Republic of the Philippines should be requested to take all necessary steps to bring about the birth of the proposed union.

"For this purpose, we are asking President Quirino to convene in the immediate future at Baguio a preliminary conference to devise concrete measures for its organization."

Outer Mongolia

In accordance with the provisions of the Sino-Soviet Treaty of Friendship and Alliance and the notes on Outer Mongolia, China would recognize the independence of Outer Mongolia with the existing boundary as its boundary, should a plebiscite of the Outer Mongolia people confirm this desire. Such a plebiscite was held on October 20, 1945. The Chinese government sent Lei Fa-chang, Vice-Minister of Interior, to Ulan Bator (Urga) as official Chinese witness. Out of 494,074 Outer Mongolian voters, 483,291 went to the poll and all cast their votes in favor of independence. The result of the plebiscite was received by the Ministry of Foreign Affairs on November 16, 1945. On January 5, 1946, the Chinese Government formally announced the independence of Outer Mongolia.

On February 7, 1946, the Outer Mongolian People's Republic sent a representative to Chungking to discuss the establishment of diplomatic relations between the two countries. Dr. Wang Shih-chieh, Minister of Foreign Affairs, in a note to the Mongolian delegate on February 14, 1946, expressed the agreement of the Chinese Government to the proposal.

But the relations between the two countries suffered a great setback on June 5, 1947 when Outer Mongolian cavalry units aided by four planes, attacked Chinese defense forces at Peitashan, 117 miles northeast of Kitai in eastern Sinkiang province. Despite Chinese protests to the U.S.S.R. and Outer Mongolian Government, several more such attacks were made later. The Outer Mongolian Government showed no interest in friendly negotiation concerning the incidents.

On June 24, 1947, the Outer Mongolian People's Republic applied to the United Nations for membership. On June 29, China, because of the Peitashan Incident, vetoed the application.

Pakistan

Pakistan's Independence Day—On Pakistan's Independence Day on August 15, 1947, the Chinese Government sent Tsai Wei-ping, Consul-General in Calcutta, to participate in the celebration ceremony at Karachi. On the same day, the Ministry of Foreign Affairs announced the Chinese Government's decision to exchange ambassadors with the Dominion of Pakistan. Up to the end of 1948, however, neither country had appointed diplomatic representatives.

The Republic of The Philippines

Proclamation of Independence—On July 4, 1946, the independent Republic of the Philippines was proclaimed. China sent Kan Nai-kuang, Vice-Minister of Foreign Affairs, to Manila to attend the celebration ceremony.

Exchange of Diplomatic Missions—After the Chinese and Philippine Governments agreed to exchange ministers, the Executive Yuan appointed on July 24, 1946 Chen Chih-ping as Minister to the Philippines. Minister Chen presented his credentials to President Manuel A. Roxas on October 3. The Philippine Government appointed Procese E. Sebastian Minister to China. The latter presented his cerdentials to President Chiang Kai-shek on April 19, 1948. In July, 1949, the status of the diplomatic missions between the two countries was elevated to the rank of embassy. Minister Chen was promoted to Ambassador.

Sino-Philippine Treaty of Amity—On April 18, 1947, the Sino-Philippine Treaty of Amity was signed in Manila between Chen Chih-ping, Chinese Minister to the Philippines, and Elpidio Quirino, Philippine Vice-President and concurrently Foreign Minister. The ratifications were exchanged on October 24.

Text of the Sino-Philippine Treaty of Amity follows:

Sino-Philippine Treaty of Amity

The Republic of China and the Republic of the Philippines, animated by the desire to strengthen and perpetuate the friendly relations so happily existing between them, have resolved to conclude a Treaty of Amity and to that end have agreed upon the following articles:

Article I.—There shall be perpetual peace and evelasting amity between the Republic of China and the Republic of the Philippines and their peoples.

Article II.—Should any dispute arise between the two High Contracting Parties which cannot satisfactorily be adjusted by diplomacy, or through mediation or arbitration, the Parties shall not use force for settlement, but shall refer the dispute to the International Court of Justice for final adjudication.

Article III.—Each of the High Contracting Parties shall have the right to send to, and receive from, the Other diplomatic representatives. Such diplomatic representatives shall enjoy in the territories of the Other the rights, privileges, exemptions and immunities accorded under generally recognized principles of international law and usage.

Article IV.—Each of the High Contracting Parties shall have the right to send to, and receive from, the Other, Consul-General, Consuls, Vice-Consuls and Consular Agents who, being duly provided with exequatur, shall be permitted to reside in the territories of the Other in such places as may be agreed upon by the High Contracting Parties. Such consular representatives shall exercise their functions and enjoy the privileges and immunities accorded to officers of their status and rank in accordance with the generally accepted principles of international law and usage.

Article V.—The nationals of each of the High Contracting Parties shall be at liberty to enter or leave, to travel or reside in the territories of the Other upon the same terms as the nationals of any third country in accordance with the laws and regulations of the Other.

Article VI.—The nationals of each of the High Contracting Parties shall be accorded, in the territories of the Other, the liberty to establish schools for the education of their children, and shall enjoy freedom of peaceful assembly and association, of publication, of worship and religion, of burial and building cemeteries, upon the same terms as the nationals of any third country in accordance with the laws and regulations of the Other.

The nationals of each of the High Contracting Parties shall have the right to acquire, inherit, possess, lease, occupy and dispose of by sale, testament, donation or otherwise, any kind of movable or immovable property and to engage in trade and other peaceful and lawful pursuits throughout the whole extent of the territories of the Other upon the same terms as the nations of any third country in accordance with the constiution, law and regulations of the Other.

Article VII.—The nations of each of the High Contracting Parties shall be accorded, in the territories of the Other, the same treatment with respect to the protection and security of their persons and property as is accorded to the nationals of the Other.

The nationals of each of the High Contracting Parties shall receive in the territories of the other in regard to all legal proceedings and in matters relating to the administration of justice and the levying of taxes treatment no less favorable than that accorded to the nationals of the Other.

Article VIII.—The High Contracting Parties agree to conclude as soon as practicable a Treaty of Commerce and Navigation.

Article IX.—The stipulations of this Treaty do not extend to advantages which are now accorded or which may hereafter be accorded by the Republic of the Philippines to the United States of America or its nationals.

Article X.—The High Contracting Parties shall ratify this Treaty in conformity with their respective constitutional procedures, and it shall enter into force on the day on which the exchange of ratifications takes place. The instruments of ratification shall be exchanged in the City of Manila, Philippines.

In Faith Whereof, the Plenipotentiaries of the High Contracting Parties have signed this present Treaty and have hereunto affixed their seals.

Done in duplicate in the Chinese and English languages, both texts being authoritative, in the City of Manila, Republic of the Philippines, this eighteenth day of the fourth month of the thirty-sixth year of the Republic of China, corresponding to the eighteenth day of April in the year one thousand nine hundred and forty-seven, Anno Domini, and of the Independence of the Philippines the first.

For the Republic of China:
(*Signed*) CHEN CHIH-PING
For the Republic of the Philippines:
(*Signed*) MANUEL ROXAS

Chiang-Quirino Conference, 1949—Generalissimo Chiang Kai-shek, accompanied by a group of advisors, visited Baguio, the summer capital of the Philippines, to confer with President Elpidio Quirino on July 10-13, 1949, on the formation of a Pacific Union against communism. (Generalissimo Chiang also conferred with President Syngman Rhee of Korea on the formation of the anti-communism union. See section on "China's Relations with Korea.")

Generalissimo Chiang and President Quirino issued the following joint statement on July 12:

"During the past few days we have had a full exchange of views on matters concerning Sino-Filipino cooperation and the relations among all Far Eastern countries.

"We both feel happy to state that throughout the meeting the atmosphere was permeated with a spirit of frankness and harmony.

"In our discussions we agreed that relations between China and the Philippines will be further strengthened and that concrete and practical measures should immediately be taken by our respective governments for the promotion of closer economic and cultural cooperation.

"In view of the lack of close collaboration among them in the past, and considering the gravity of the communist menace which confronts their freedom and independence today, we deem it necessary that these countries should at once organize themselves into a union for the purpose of achieving solidarity and mutual assistance.

"Representatives of those countries desiring to participate in the formation of the union shall be convened at the earliest possible moment to devise concrete measures for its organization.

"It is our hope that other countries in Asia and the Pacific will eventually respond to the highest aims of the proposed union."

Generalissimo Chiang also issued a personal statement which reads: **"I have come to the Philippines upon the invitation of President Quirino to confer with him in my private capacity. I shall, as leader of the Kuomintang, undertake to advise and request the Chinese Government to give its full support and take steps to implement the agreement as announced in the above joint statement."**

On July 16, 1949, a joint meeting of the standing committee of the Central Executive Committee and the Central Political Council of the Kuomintang was held in Canton. At the meeting Generalissimo Chiang reported on his Baguio trip. Acting President Li Tsung-jen and Premier Yen Hsi-shan, who are members of both organs, moved a resolution of giving full support to the formation of a Pacific Union as proposed in the Chiang-Quirino joint statement. The resolution was unanimously adopted.

SIAM

Diplomatic Missions—The Chinese Mission to Siam headed by Li Tieh-tseng arrived in Bangkok on January 9, 1946 to discuss with the Siamese Government matters pertaining to the conclusion of a Sino-Siamese Treaty of Amity. The Siamese Mission to China headed by Luang Sit arrived in Chungking on February 27, 1946.

Sino-Siamese Treaty of Amity—The Sino-Siamese Treaty of Amity was signed in Bangkok on January 23, 1946. The ratifications were exchanged in Chungking on March 28.

Exchange of Ambassadors—Li Tieh-tseng, first Chinese Ambassador to Siam, presented his credentials at Bangkok on September 17, 1946. Sanguan Tularak, first Siamese Ambassador to China, presented his credentials at Nanking on December 28, 1946.

Overseas Chinese Education—According to 1936 statistics, the schools set up by overseas Chinese in Siam totalled 259. The Siamese Government closed all of them in 1939. After China and Siam resumed their diplomatic relations after World War II, most of the schools were allowed to reopen on the condition that the teachers in private schools should pass an examination in the Siamese language and Chinese lessons in compulsory schools should not exceed five-and-a-half hours a week. After much negotiation between the Chinese Embassy and the Siamese Government, an agreement was reached in 1947 for overseas Chinese schools in Siam to be exempted from these limitations. By January, 1948, more than 300 Chinese schools were registered with the Siamese Government.

But the agreement between the Chinese Embassy officials and the Thamrong government in 1947 was not honored by the Luang Pibul Songgram government which in mid-May, 1948, forced the closure of about 500 Chinese schools. The deadlock was not broken until the beginning of August when the Siamese Government agreed to abide by the agreement providing that Chinese teachers who have proper certificates from recognized institutions in China or have the recommendation of the Chinese Consulate-General in Bangkok would be registered without having to pass any examination in the Siamese language. By August 7, more than 100 Chinese primary schools in Bangkok and Thonburi had been permitted to reopen. But Chinese middle schools remained closed. On September 7, the Chinese consulate-general in Bangkok reported that about 4,000 Chinese students had departed for China for education. The Chinese Ministry of Foreign Affairs has again taken up the matter with the Siamese authorities.

THE UNITED STATES OF INDONESIA

On December 27, 1949, all the Netherlands East Indies, with the exception of Dutch New Guinea, became the United States of Indonesia. The U.S.I. thus became the seventh nation to gain independence since World War II.

China accorded diplomatic recognition to the new republic on December 28, the day following its birth.

RELATIONS WITH EUROPEAN COUNTRIES

AUSTRIA

Austria regained her national sovereignty after World War II. The Chinese Government extended its recognition of the Austrian Government on July 7, 1946.

In July, 1947, the Chinese Government appointed Shen Shih-hua as Minister to Austria. Minister Shen presented his credentials to President Karl Renner on December 19, 1947. Felix Stummovoll, Austrian Minister to China, presented his credentials to President Chiang Kai-shek on March 5, 1948.

Belgium

Extraterritorial Rights—On October 20, 1943, a new treaty for the relinquishment of extraterritorial and all related rights of Belgium and Luxemburg in China was signed in Chungking by T. V. Soong, Minister of Foreign Affairs, and Baron Jules Guillaume, Belgian Ambassador.

Brussels Commemorates Dr. Sun's Birthday—To commemorate the 50th anniversary of Dr. Sun Yat-sen's visit to Belgium, the people of Brussels observed Dr. Sun's birthday anniversary on November 12, 1947.

Transfer of Sino-Belgian Radium Institute—The Sino-Belgian Radium Institute in Shanghai established by the Sino-Belgian Educational Fund in 1931 was temporarily placed under the management of the Belgian Medical Foundation in China in 1939 in order to avoid Japanese seizure.

On September 17, 1946, the Belgian Embassy in China sent a memorandum to the Chinese Ministry of Foreign Affairs expressing its wish to return the institute to China. As a result of discussions held on November 30, 1946, between Ling Chi-han, representing China, and Delvaux de Denffe representing Belgium, it was decided to place the institute under the control of a board of directors, organized by the Chinese Government with the Belgian Ambassador to China as honorable chairman.

Czechoslovakia

In 1944 China agreed with Czechoslovakia to raise the status of their respective diplomatic missions to that of an embassy. In August, 1945, the Chinese Government appointed Lone Liang as Ambassador to Czechoslovakia. Josef Lelek, Czech Ambassador to China, arrived in China in September, 1947 to assume his post.

On October 5, 1949, the Chinese Government announced the severance of diplomatic relations with Czechoslovakia, following the latter's recognition of the Chinese Communist regime in Peiping.

Denmark

After Denmark's recognition of the Japanese sponsored puppet regimes in Nanking and the Northeast (Manchuria), the Chinese Government on August 20, 1941, announced the severance of diplomatic relations with Denmark. The relations were not resumed until May 17, 1945 when the Danish Government, after its liberation, announced its severance of diplomatic relations with Japan and the withdrawal of its recognition of the two puppet regimes.

On May 20, 1946, the Danish Government sent a special envoy, Henrik de Kaufmann, to China to conclude the Treaty for the Relinquishment of Danish Extraterritorial Rights in China and the Regulation of Related Matters. Alex Morch, Danish Minister to China, arrived in Nanking on October 8, 1946. Li Chun, Minister to Denmark, arrived in Copenhagen in November, 1947.

Greece

In September, 1947, China appointed Wen Yuan-ning as her first Ambassador to Greece after the war. Ambassador Wen arrived in Athens in November and presented his credentials to King Paul in January, 1948. The Greek Ambassador to China, Alexander J. Augyro Paulos, presented his credentials to President Chiang Kai-shek in April, 1948.

Hungary

On June 6, 1947, China announced her recognition of the postwar Hungarian Government. However, there was no exchange of diplomatic representatives.

China severed diplomatic relations with Hungary in November, 1949, following the latter's recognition of the Chinese Communist regime in Peiping.

The Netherlands

Sino-Netherlands Treaty—A new Sino-Netherlands Treaty for the relinquishment by the Netherlands of extraterritorial and other special privileges in China was signed on May 29, 1945, in London.

Cultural Relations—In 1933, the Chinese and Netherlands governments agreed to appropriate 400,000 guilders out of China's Boxer indemnity payment to the Netherlands as provided in the final Protocol signed at Peking in 1901, for the promotion of cultural relations between the two countries. The fund was to be used as subsidies to educational and cultural institutions in China and the Netherlands and as scholarships for Chinese studying in the Netherlands.

Norway

The Sino-Norwegian Treaty* for the abrogation of Norwegian extraterritorial rights in China and the settlement of related matters was signed on November 10, 1943, in Chungking by T. V. Soong, Minister of Foreign Affairs, and Norwegian Ambassador Alf Hassel. On September 15, the Chinese Government appointed Wunsz King, Ambassador to Belgium, as Ambassador to Norway concurrently. On July 19, 1946, Nicolai Aall, Norwegian Ambassador to China, arrived in Nanking to take up his post.

* For important points of the Sino-Norwegian Treaty, see China Handbook, 1945.

Poland

After Poland declared war on Japan following the outbreak of the Pacific War and withdrew her recognition of the Japanese-sponsored puppet regime in the Chinese Northeastern Provinces, China and Poland agreed to resume diplomatic relations. In June, 1942, the two countries decided to elevate the status of their respective missions to that of embassy.

In May, 1946, the Polish Government named Dr. Nichal Derenicz as Polish Charge d'Affairs to China. In June, 1946, the Chinese Government appointed Pao I as Counsellor to establish an embassy in Poland. Mr. Pao arrived in Warsaw in September.

The Chinese Government severed diplomatic relations with Poland on October 5, 1949, following Poland's recognition of the Chinese Communist regime in Peiping.

Portugal

In 1946, the Chinese Government appointed Wang Hua-cheng as Minister to Portugal to replace Henry K. Chang, who was promoted to be China's Ambassador to the Netherlands. The Portuguese Government sent Dr. J. B. Ferreira da Fonseca as Minister to China.

On October 10, 1945, the Portuguese Government notified the Chinese Government of its intention to relinquish its extraterritorial rights in China and conclude a new Sino-Portuguese treaty. But, pending the satisfactory settlement on the problem of Macao, the two countries agreed to abolish the Portuguese special rights in China by an exchange of notes before concluding a new treaty. The notes were duly exchanged by representatives of the two countries in Nanking on April 1, 1947.

Spain

Spain has had no diplomatic representation in China since 1936. Following the coup d'etat in Spain that year, Spanish diplomatic personnel in China resigned. Later, in 1937, when the fall of Madrid was imminent, the Chinese diplomatic mission was evacuated to the French border. The mission ceased to function in 1940.

Sweden

The new Sino-Swedish Treaty* for the relinquishment of Swedish extraterritorial rights in China was signed on April 5, 1945 in Chungking with T. V. Soong representing China and Minister Sven Allard representing Sweden.

On September 18, 1947, the Chinese and Swedish governments announced their decision to raise the status of their respective diplomatic missions to that of embassy. On September 23, 1947, Hsieh Wei-lin, Minister to Sweden, was promoted to be Ambassador. On April 19, 1948, Tortsten Hammarstrom, Swedish Ambassador to China, presented his credentials to President Chiang Kai-shek.

Switzerland

The Executive Yuan on March 9, 1945 appointed Lone Liang Minister to Switzerland. Dr. Liang arrived in Berne in June. Later, he was succeeded by Wu Nan-ju.

A Swiss Economic Mission, consisting of five leading Swiss industrialists interested in China's postwar reconstruction work, visited Chungking in the summer of 1945.

RELATIONS WITH LATIN AMERICAN COUNTRIES

Argentina

Chen Chieh, first Chinese Ambassador to Argentina, arrived in Buenos Aires to assume his post on April 1, 1946.

The Argentine Government appointed Dr. Emilio R. Escobar as its Ambassador to China. He arrived in China on June 3, 1947.

The Sino-Argentine Treaty of Amity was concluded in Buenos Aires on February 10, 1947.

Brazil

On December 17, 1948 the Chinese Government appointed Quo Tai-chi as Ambassador to Brazil. Dr. Quo presented his credentials on April 8, 1948.

Joaquim Eulalio, Brazilian Ambassador to China, presented his cerdentials in June, 1944. He left China in the beginning of 1948.

Chile

On November 3, 1945, the Chinese and Chilean Governments announced the raising of the status of their respective diplomatic missions to that of embassy. Chaucer

* For important points of the Sino-Swedish Treaty, see China Handbook, 1945.

Wu, Minister to Chile, was promoted to be Ambassador. He presented his credentials on March 13, 1947.

The Chilean Government appointed Oscar Blanco Viel as its first Ambassador to China. Ambassador Viel arrived in China to present his credentials on March 18, 1947.

In October, 1947, China reached a commercial agreement with Chile for the purchase of 90,000 m. tons of chemicals to be delivered within three years.

Costa Rica

In June, 1948, the Chinese Government appointed Cheng Chen-yu, Minister to Panama, concurrently Minister to Costa Rica. Up to the end of 1949, the Costa Rican Government had not yet sent any diplomatic mission to China.

The Sino-Costa Rican Treaty of Amity was signed on May 5, 1944. Its ratifications were exchanged on June 15, 1945, at San Jose.

Cuba

On June 19, 1946, the Chinese Government conferred on President Ramon Grau San Martin of Cuba the Special Grand Cordon of the Order of Propitious Clouds.

The Chinese Government appointed in December, 1946, K. C. Mui as Minister to Cuba. The Cuban Minister to China, Robert O. Mendoze, presented his credentials to President Chiang on July 13, 1946.

Dominican Republic

In March, 1947 Huang Yun-ssu was appointed Minister to the Dominican Republic. The Dominican Minister to China, Dr. Leonte Guzman Sanchez, arrived in China and presented his credentials in October, 1946.

In 1947, the Chinese Government conferred on the Dominican President Rafael Trujillo the Special Grand Cordon of the Order of Propitious Clouds. In March, 1948, the Dominican Government decorated President Chiang Kai-shek with the Gran Cruz Cordon of the Order of Columbus.

On June 8, 1945, an agreement was signed in San Francisco between T. V. Soong, then president of the Executive Yuan, and the foreign minister of the Dominican Republic to add a clause to the Sino-Dominican Treaty of Amity signed at the Dominican capital on May 11, 1940. By virtue of this added clause, nationals of China and the Dominican Republic may freely enter and leave the territory of each other under the same conditions as nationals of any other country.

Ecuador

The Chinese and Ecuadorian Governments concluded a treaty of amity on June 1, 1946. The ratification notes were exchanged on April 17, 1947 at Quito.

On January 12, 1948, Yu Wang-teh, Chinese Minister to Colombia and concurrently Minister to Ecuador, presented his credentials to President Carlos Julio Arosemena.

El Salvador

In March, 1943, the Chinese Government appointed Tu Yun-tan, Chinese Minister to Panama, concurrently Minister to El Salvador. Up to the end of 1949 the Government of El Salvador has not yet sent a diplomatic mission to China.

The El Salvador Congress passed on March 29, 1944, a set of new regulations giving equal treatment to Chinese immigrants. The abolition of discriminative ruling against Chinese businessmen in El Salvador remained a subject for negotiation between the two countries.

Guatemala

The Chinese Government on November 24, 1944, recognized the new Guatemala Government. Since June, 1939, the Chinese diplomatic representative in Guatemala has been Tchou Che-tsien, Consul-General. Up to the end of 1949 the Guatemalan Government has not yet sent a diplomatic mission to China.

Honduras

Honduras amended, on March 2, 1944, its Immigration Law and lifted restrictions against the immigration of Chinese into Honduras.

In June, 1942, the Chinese Government appointed Tu Yun-tan, Chinese Minister to Panama, concurrently Minister to Honduras. Up to the end of 1949 the government of Honduras has not yet sent a diplomatic mission to China.

Mexico

In August, 1945, the Chinese Government appointed Feng Chih-cheng as Ambassador to Mexico. Ambassador Feng presented his credentials on November 29.

The Sino-Mexican Treaty of Amity was concluded on August, 1944. It came into effect on March 26, 1946 when the ratification notes were exchanged at Mexico City.

On August 1, 1947, the Chinese Government conferred on President Miguel Aleman Valdres of Mexico the Special Grand Cordon of the Order of Propitious Clouds.

The new Mexican Ambassador to China, General Francisco J. Aguilar, arrived in Nanking in August, 1947. He presented his credentials to President Chiang on August 28. On December 12, 1947, he was decorated by the Chinese Government with the Grand Cordon of the Order of Brilliant Star.

Nicaragua

In August, 1945, the Chinese Government elevated the rank of Ying Shang-teh, Chinese Consul-General in Managua, to that of Minister.

Panama

In April, 1942, the Chinese Government appointed Tu Yun-tan Minister to Panama. He was succeeded by Cheng Chen-yu in April, 1948. The Panaman Minister to China, Julio E. Brieno, arrived in China and presented his credentials in May, 1946.

On April 19, 1946, more than 70 officers and 1,000 enlisted men of the Chinese Navy visited Panama on their way back to China after the completion of their training in the United States. During their six-day visit, they were warmly welcomed by the Panaman Government and people.

Venezula

The Sino-Venezuelan Cultural Institute devoted to the promotion of cultural relations between China and Venezuela was established in February, 1947, at Caracas.

On February 15, 1948, when the newly-elected President Romulo Callegos assumed his office, the Chinese Government sent Yu Wang-teh, Minister to Colombia, as special envoy with ambassadorial rank to Caracas to extend congratulations.

RELATIONS WITH NEAR EASTERN AND AFRICAN COUNTRIES

Afghanistan

Habibullah Z. Tarzi, first Afghan Minister to China, arrived in Nanking to present his credentials in July, 1946. The Chinese Minister to Afghanistan, Hsu Nien-tseng, arrived in Kabul in August, 1946.

Arabia

Efforts for the establishment of relations with Arabia were first made by China in 1936, through the exchange of opinions in Moscow between the Chinese Ambassador and the Arabian Minister in Moscow. China appointed her first consul to Jidda in 1939.

Egypt

Ilias Ismail Bey, Egyptian Minister to China, arrived in Nanking in January, 1947, and soon afterwards presented his credentials. The Chinese Government appointed Ho Feng-shan Minister to Egypt in March, 1947. He arrived in Cairo in August. On September 28, 1948, it was announced that China and Egypt had agreed to elevate the status of their respective diplomatic missions from legation to embassy.

The Chinese Government made a contribution of 1-million c.c. of cholera vaccine to the Egyptian Government in October, 1947 when Egypt had an epidemic.

Iran

In June, 1946, the Chinese Government appointed Cheng Yi-tung as Ambassador to Iran to replace Li Tieh-tseng. Ambassador Cheng presented his credentials on September 14, 1946. Since V-J Day, Djavad Ghadimi, Counsellor, has been in charge of the Iranian Embassy in China.

Iraq

Since July 7, 1946, Lee Ginffa has been China's Charge d'Affairs in Iraq. Up to the end of 1949, the Iraq Government has sent no diplomatic mission to China.

Liberia

China was represented at Liberia's centennial Independence Day on July 24, 1947, by Shih Chao-ying, then consul-general at Johannesburg, South Africa. Shih presented his credentials to President William V. S. Tubman on July 22.

Turkey

In 1947, Hsu Mo, Chinese Ambassador to Turkey, was recalled, leaving embassy affairs in charge of Chiu Tsu-ming, Counsellor. In March, 1947, Dr. Li Ti-tsun was appointed ambassador to Turkey. He arrived in Ankara in June.

In December, 1947, the Turkish Government made a contribution of 700 kg. of medicines to China for the relief of refugees in flooded areas. The affairs of the Turkish Embassy in China have been in charge of Necdet Ozman, Secretary, since the return of Ambassador Hulusi Fuad Tugay to Turkey in April 26, 1947.

RELATIONS WITH THE VATICAN

In 1946, the Chinese Government and the Vatican agreed to elevate the diplomatic representation of the Holy See in China to that of legation. Monseigneur Riberi, the Vatican Minister to China, arrived in China on December 28, 1946 to present his credentials to President Chiang Kai-shek. In September, 1946, the Chinese Government appointed John C. H. Wu as Chinese Minister to the Vatican succeeding Cheou-kang Sie. In June, 1949, Sie returned to the Vatican as Chinese Minister.

PARTICIPATION IN INTERNATIONAL CONFERENCES*

The Foreign Ministers Council

The Foreign Ministers Council was convened in London on September 11, 1945, for the discussion of concluding peace treaties with Italy, Rumania, Bulgaria, Hungary, and Finland. The Chinese Foreign Minister was represented by Dr. Wellington Koo, then Ambassador to Great Britain. The council ended its session on October 2 without success.

Paris Peace Conference

The first peace conference resulting from the Allied victory over the Axis in World War II opened in Paris on July 29, 1946. Besides the United States, United Kingdom, France and U.S.S.R. which drafted preliminary peace terms, 17 Allied nations sent delegates. The chief Chinese delegate to the conference was Dr. Wang Shih-chieh, Minister of Foreign Affairs. China took part in the signing of the peace treaty with Italy.

International Labor Conference

The 27th Session of the General Conference of International Labor Organization convened in Paris on October 25, 1945. The Chinese Government sent two government delegates, one employers' representative and one labor's representative to attend the conference. The session ended on November 6, 1945.

The Chinese Government also sent delegates to the 28th Session of the Conference convened on June 6, 1946 in Seattle and the 29th Session which opened on September 19, 1946 in Montreal. During the 29th Session, An Instrument for the Amendment of the Constitution, 1946 and An Inter-nation Labor Convention for the Partial Revision of the Convention of the Previous 28th Session were passed. The resolutions were ratified by the Chinese Government in May, 1947.

On June 19, 1947, Chinese delegates attended the 30th Session of the Conference held in Geneva.

International Labor Statistics Conference

The International Labor Statistics Conference in connection with employment, unemployment and cost of living convened in Montreal on August 4, 1947. The Chinese Government sent Wang Lung as representative to the conference.

Iron and Steel Production Committee Meeting

The first meeting of the Iron and Steel Production Committee was held in Cleveland, Ohio, in April, 1946. The second meeting of the committee convened in Stockholm, Sweden, on August 19, 1947. China's representation at the meeting included two delegates from the government, two from labor and two from management.

The Preparatory Asia Regional Conference

The Preparatory Asia Regional Conference for the discussion of general labor policies and social security problems was held on October 28, 1947 in New Delhi, India. China was represented in the meeting by two delegates.

Industrial Committee on Inland Transport Meeting

The second session of the Industrial Committees on Inland Transport was convened in Geneva in May, 1947. The Chinese Government sent a delegate and an adviser to participate in the meeting.

International Maritime Conference

The Preparatory Technical Maritime Conference which convened on November 15, 1945 in Copenhagen was attended by a Chinese delegation of three, representing the government, management and labor, respectively.

The International Maritime Conference opened on June 6, 1946 in Seattle. Three Chinese delegates representing the government, management and labor, respectively, also attended.

China was represented by a delegate in the conference of the Joint Maritime Commission of International Labor Office which convened in Geneva on December 1, 1946.

The International Maritime Conference convened in Geneva from February 19 to March 5, 1948 passed the Convention for the Establishment of An Inter-Governmental Maritime Consultative Organization. The conference was attended by representatives of 35 countries. Wu Nan-ju, Chinese delegate, was elected to serve as the second vice-chairman of the meeting.

* For other international organizations, see Chapter 13 "China in the United Nations."

International Wheat Conference

China was invited to be a member of the International Wheat Council in February, 1946. She sent two delegates to the 12th Session of the Council convened in Washington, D. C. on July 15, 1946, at which a resolution was passed to set up a preparatory committee for the discussion of the Draft of the International Wheat Agreement.

On March 18, 1947, in accordance with the resolution passed by the International Wheat Council, the International Wheat Conference attended by countries that import and export wheat was held in London. China, together with 40 other countries, sent delegates to the conference. The session closed on April 23 without result.

On January 28, 1948, the International Wheat Council convened a special conference in Washington, D. C., for the signing of the International Wheat Agreement. Dr. Wellington Koo, head of Chinese Delegation, signed the agreement on March 6, 1948, for the Chinese Government.

International Meteorological Conference

China was one of the 59 countries which sent delegates to the International Meteorological Conference held by the International Meteorological Organization in Canada and the United States on August 4, 1947. The conference was divided into three sessions convened in three different places. First session—August 4-14 in Toronto; second sesion—September 17-18 in Montreal; and third session—September 22-October 11 in Washington, D. C. Decision was reached during the third session, which was the Conference of Directors of the International Meteorological Organization, to amend the Convention of the I.M.O. and join the United Nations in the future.

International Civil Aviation Conference

The Chinese Government sent delegates to participate in both the First Session of the Interim Council of International Civil Aviation Organization held on August 15, 1945 in Canada and the First Session of the Interim Assembly of ICAO held on May 21, 1946.

The first session of the ICAO Assembly met in Montreal, Canada, from May 6 to 27, 1947. The Chinese delegation was headed by Dr. Liu Chieh, Ambassador to Canada. A resolution including an amendment to the ICAO Convention was passed in the session. After ratification by the Chinese Government, the resolution became effective in China beginning from March 24, 1948.

The Inter-Asian Relations Conference

China was represented at the Inter-Asian Relations Conference convened at New Delhi in India on March 23, 1947, by a delegation of eight members, headed by Cheng Yen-fen, and one official observer. During the session from March 23 to April 2, 1947, the Chinese delegation actively took part in discussions of various Asiatic problems and the promotion of mutual understanding among different peoples. On the proposal of the Chinese delegation, the conference resolved to set up a permanent Asian Relations Organization. The Chinese delegation also proposed that the 1949 inter-Asian Relations Conference be held in China.

CHAPTER 13

CHINA IN THE UNITED NATIONS

China, one of the four sponsoring nations for the United Nations Conference on International Organization held in San Francisco in 1945, is one of the original members of the United Nations.

One of the five permanent members of the U.N. Security Council, China also holds elected membership in the Economic and Social Council, the Trusteeship Council, and the International Court of Justice.

China is a member of several world organizations including the following United Nations specialized agencies:

Food and Agriculture Organization,
International Bank for Reconstruction and Development,
International Civil Aviation Organization,
International Labor Organization,
International Monetary Fund,
International Refugee Organization,
International Telecommunication Union,
United Nations Educational Scientific and Cultural Organization,
Universal Postal Union,
World Health Organization, and
International Trade Organization (not yet formally established up to the end of 1949).

THE SECURITY COUNCIL

As provided for in the Charter of the United Nations, China is one of the five permanent members of the Security Council and holds the power of veto. Since the establishment of the Security Council, China has taken an active part in its affairs and activities.

China has been represented on the Security Council by the following:

January-February, 1946:
V. K. Wellington Koo, Representative
Foo Ping-sheung, Alternate Representative

March-June, 1946:
Quo Tai-chi, Representative

July-September, 1946:
C. L. Hsia, Acting Representative

October, 1946-May, 1947:
Quo Tai-chi, Representative
C. L. Hsia, Alternate Representative

June-July, 1947:
C. L. Hsia, Acting Representative

Since August, 1947:
Tingfu F. Tsiang, Representative
C. L. Hsia, Alternate Representative
Shuhsi Hsu, Alternate Representative

Atomic Energy Commission.—As a permanent member of the Security Council, China holds membership in the Atomic Energy Commission which was created in January, 1946, by the General Assembly and directed to submit its reports and recommendations to the Security Council.

Commission for Conventional Armaments.—The Security Council, pursuant to a resolution adopted by the General Assembly in December, 1946, established the Commission for Conventional Armaments, composed of members of the Security Council, in February, 1947. A special committee was formed to prepare a plan of work, and the Chinese representative was elected chairman of the committee.

Military Staff Committee.—The Military Staff Committee is a military advisory organ of the Security Council composed of the chiefs-of-staff — or their representatives — of the five permanent members of the Security Council. Head of the Chinese Delegation to this committee is Air Lieutenant-General Mow Pong-tsu, who succeeded General Ho Ying-chin in April, 1948.

CHINA'S CASE IN THE U.N.

China filed a formal complaint with the United Nations General Assembly, fourth session, in September, 1949, against the U.S.S.R., charging the latter with aiding the Chinese Communists in their insurrection and violating the Sino-Soviet Treaty of Friendship and Alliance of 1945 and the Charter of the United Nations. The case was presented by Dr. T. F. Tsiang, chairman of the Chinese Delegation.

Denouncing the U.S.S.R. in a general 1945 and the Charter of the United Nations policy speech before the U.N. General Assembly on September 22, Dr. Tsiang said that "the Soviet Union has obtained in Manchuria more than Czarist Russia ever tried to seize," and "the Soviet Union, through the Chinese Communist Party, has an instrument and a lever with which to undermine the independence and integrity of China, and the peace of the Far East." Formally filing China's complaint on September 27, Dr. Tsiang stated that he hoped that discussion of the case in the United Nations would bring Soviet Russia to "moral and political judgment."

The General Committee of the Assembly voted to place the Chinese complaint on the agenda of the fourth session of the assembly. Despite the fight of Andrei Vyshinsky of U.S.S.R. to keep the issue off the agenda, the Assembly in plenary session on September 29 approved the inclusion of the item by a vote of 45-6. (The Slav states, including Yugoslavia, voted against; Afghanistan, Haiti, Israel, Syria and Yemen abstained.)

Item 68 on the agenda of the U.N. General Assembly, fourth session, entitled "Threats to the political independence and territorial integrity of China and to the peace of the Far East, resulting from Soviet violations of the Sino-Soviet Treaty of Friendship and Alliance of August 14, 1945, and from Soviet violations of the Charter of the United Nations," was taken up by the Political Committee of the General Assembly on November 25.

Opening the general debate in the committee, Dr. T. F. Tsiang presented a heavily-documented statement* which told of:

Soviet imperialistic designs upon China;
Soviet policy of preventing the National Government of China from re-establishing Chinese national authority in Manchuria;
Soviet policy of aiding the Chinese Communists in Manchuria, and facts relating to such active aid
—by supplying the Chinese Communists with Japanese arms and ammunition captured by, or surrendered to, the Soviet authorities
—by supplying the Chinese Communists with Soviet-manufactured arms and ammunition and assisting the Chinese Communists in military training
—by using surrendered Japanese soldiers and Korean Communists to fight for the Chinese Communists;
Participation of Soviet military forces in operational activities of the Chinese Communists;
Soviet economic and technical assistance to the Chinese Communists;
Conclusion of a barter agreement between the Soviet Union and the so-called "People's Democratic Regime in Manchuria;"
Evidence regarding Soviet assistance to the Chinese Communists as shown in various statements made by Chinese Communist leaders;
Soviet economic designs on Manchuria;
Murder of Mr. Chang Hsin-fu (Chinese mining engineer);
Summary of Soviet activities in Manchuria—imperialism in all its nakedness;
The question of Outer Mongolia;
The outright annexation of Chinese territory Tanu Tuva;
Soviet imperialistic designs on Sinkiang;
Extension of iron curtain to China;
Soviet imperialistic expansion in Asia;
Soviet threats to peace and security of the Far East;
China's struggle against imperialistic communism; and
Decisions requested of the General Assembly.

He also tabled before the committee annex documents including the text of the Chinese Ministry of Foreign Affairs communique (dated Nanking, June 25, 1947) on the negotiations with the U.S.S.R. concerning the take-over of Port Arthur and Dairen (*for text, see chapter on "Foreign Affairs," section on "China's Relations with U.S.S.R."*) and notes on Soviet atrocities in Manchuria with a list of 455 cases of Soviet atrocities in Mukden, Changchun and Harbin.

On the following day, November 26, Dr. Tsiang introduced in the Political Committee a draft resolution, asking the United Nations to (1) find the U.S.S.R. guilty of violating the U.N. Charter and the Sino-Soviet treaty of 1945, (2) urge all U.N. members to desist and refrain from giving any military and economic aid to Chinese Communists, (3) recommend to all U.N. member States not to accord diplomatic recognization to any regime organized by Chinese Communists, and (4) ask all nations not to take advantage of the present situation in China in any way

* See end of this chapter for the text of Dr. Tsiang's statement.

that would be incompatible with the political independence and territorial and administrative integrity of China.

The United States, together with Australia, Mexico, Pakistan, the Philippines, proposed on November 28 a much weaker resolution aimed at promoting the "stability of international relations in the Far East." This joint resolution calls U.N. members to respect China's independence, let the Chinese people choose their own government independent of foreign control, to respect existing treaties with China, and to seek no special territorial rights or spheres of influence in China.

On December 5, Cuba, Ecuador and Peru sponsored a joint resolution referring China's case to the Interim Committee, or a special committee, of the General Assembly. Dr. Jose Vincento Trujillo, Representative of Ecuador, in presenting the joint resolution to the Political Committee stated that "the three delegations of Cuba, Ecuador and Peru feel that the Chinese indictment has not been sufficiently answered, and it has not been answered because we do not have sufficent information. We cannot come to a final decision and we cannot even come to a conclusion on it. We cannot absolve, acquit, or condemn. . . . Our draft resolution is merely to postpone the problem so that it will be considered more fully. We do not want to avoid a solution but we want to back ourselves with knowledge, with conviction." This resolution, subsequently amended by Lebanon and Uruguay, was approved on December 6 by the Political Committee which also accepted the five-power joint resolution.

Speaking before the plenary meeting of the Assembly on December 7, Dr. Tsiang declared that "if an amednment is submitted empowering the Interim Committee to study, in addition to my charges, possible violations of the principles of the five-power solution, my delegation would accept such an amendment."

Both joint resolutions were adopted by the General Assembly on December 8. The five-power joint resolution was approved 45-5 (Soviet bloc voted against; nine members absent). The Latin American resolution passed 32-5 (Soviet bloc opposed; United Kingdom and 17 other members abstained). The second resolution, which took the place of China's demand for an indictment of U.S.S.R., authorizes the Interim Committee to appeal to the Security Council in a China crisis if it saw fit.

Texts of China's draft resolution and the two joint resolutions adopted by the General Assembly follow:

THREATS TO THE POLITICAL INDEPENDENCE AND TERRITORIAL INTEGRITY OF CHINA AND TO THE PEACE OF THE FAR EAST, RESULTING FROM SOVIET VIOLATION OF THE SINO-SOVIET TREATY OF FRIENDSHIP AND ALLIANCE OF AUGUST 14, 1945, AND FROM SOVIET VIOLATIONS OF THE CHARTER OF THE UNITED NATIONS.

CHINA: DRAFT RESOLUTION

The General Assembly — Considering that it is the first purpose of the United Nations to maintain international peace and security, and to that end: to take effective collective measures for the prevention and removal of threats to the peace, and for the suppression of acts of aggression or other breaches of the peace;

Being of the opinion that the present crisis in China is in part due to China's sacrifices in the long resistance against Axis aggression in common with other freedom-loving nations;

Finding that the U.S.S.R. has persistently obstructed the efforts of the National Government of China in re-establishing Chinese national authority in the Northeastern Provinces (Manchuria) since the surrender of Japan and given military and economic aid to the Chinese Communists in their insurrection against the National Government of China;

Determines that the U.S.S.R. has, by obstructing the National Government of China and by giving aid to the Chinese Communists, violated the Charter of the United Nations and the Treaty of Friendship and Alliance between China and the U.S.S.R. of August 14, 1945;

Urges all member States to desist and refrain from giving any military and economic aid to the Chinese Communists;

Recommends to all member States not to accord diplomatic recognition to any regime organized by the Chinese Communists; and

Calls upon all member States to refrain from taking advantage of the present situation in China for any purpose that is incompatible with the political independence and territorial and administrative integrity of China.

THREATS TO THE INDEPENDENCE AND TERRITORIAL INTEGRITY OF CHINA

(Resolution sponsored by the Delegations of Cuba, Ecuador and Peru; amended by the Delegations of Lebanon and Uruguay; adopted by the General Assembly on December 8, 1949.)

The General Assembly — Considering that item 68 regarding threats to the political independence and territorial integrity of China and to the peace of the Far East, resulting from Soviet violations of the Sino-Soviet Treaty of Friendship and Alliance of 14 August 1945, and from Soviet violations of the Charter of the United Nations is of special importance, involves the fundamental principles of the Charter and the prestige of the United Nations and requires further examination and study;

Considering further the resolution on the promotion of the stability of international relations in the Far East;

Decides to refer that item and any other charges of violations of the principles contained in that resolution to the Interim Committee of the General Assembly for continuous examination and study in the light of the resolution mentioned above, and to report to the next session of the General Assembly with recommendations, or to bring it to the attention of the Secretary-General in order to report to the Security Council if it deems it necessary to do so as a result of the examination or of the state of the matter submitted to it for study.

PROMOTION OF THE STABILITY OF INTERNATIONAL RELATIONS IN THE FAR EAST

(Joint resolution introduced by the Delegations of Australia, Mexico, Pakistan, the Philippines and the United States; adopted by the General Assembly on December 8, 1949.)

Whereas the peoples of the United Nations have expressed in the Charter of the United Nations their determination to practise tolerance and to live together in peace with one another as good neighbors and to unite their strength to maintain international peace and security, and to that end the Members of the United Nations have obligated themselves to carry out the purposes and principles set forth in the Charter,

Whereas it is a purpose of the United Nations to develop friendly relations among nations based on respect for the principles of equal rights and self-determination of peqples,

Whereas the organization of the United Nations is based on the principle of the sovereign equality of all its Members and on respect for international agreements, and

Whereas the Charter calls upon all Members to refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any State, or in any other manner inconsistent with the purposes of the United Nations,

The General Assembly — Desiring to promote the stability of international relations in the Far East,

Calls upon all States—1. To respect the political independence of China and to be guided by the principles of the United Nations in their relations with China;

2. To respect the right of the people of China now and in the future to choose freely their political institutions and to maintain a government independent of foreign control;

3. To respect existing treaties relating to China; and

4. To refrain from (a) seeking to acquire spheres of influence or to create foreign controlled regimes within the territory of China; (b) seeking to obtain special rights or privileges within the territory of China.

STATEMENT BY DR. TINGFU F. TSIANG

Chairman of the Chinese Delegation, on November 25, 1949, before the Poltical Committee of the General Assembly, Fourth Session, relating to the following item of the agenda:

Threats to the political independence and territorial integrity of China and to the peace of the Far East, resulting from Soviet violations of the Sino-Soviet Treaty of Friendship and Alliance of 14 August 1945, and from Soviet violation of the Charter of the United Nations.

(I)

In my statement before the plenary session of the Asembly on the 22nd of September, I implored the General Assembly to ponder over the present situation in China and the Far East. I pointed out that since the conclusion of World War II nothing had happened in any part of the world which was more serious than what had happened in my country during recent years. The Chinese Government is convinced that the Assembly should, in its presnt session, direct its attention to

the danger which is threatening the political independence and territorial integrity of China and the peace and security of the Far East.

I wish to state, under instructions of my Government, that the present danger in China and the Far East is in very large measure due to persistent acts of commission and omission on the part of the Soviet Union in violation of the various treaties and agreements pertaining to China and the Far East and also in violation of the underlying principles and major provisions of the Charter of the United Nations.

During the years following V-J Day, my Government has been most patient in trying to persuade the Government of the Soviet Union to live up to the treaty commitments and Charter obligations which affect the relations between China and the Soviet Union. The negotiations between the Chinese and Soviet Governments were both protracted and difficult. The evidence and supplementary documents which I am about to present to this Committee will show how prolonged and tortuous these negotiations were. It was only when the Chinese Government was fully convinced of the futility of further bi-lateral negotiations, and when it was clear that, as a result of the persistent acts of treaty violations on the part of the Soviet Union, the peace and security of China and the Far East were endangered, that my Government decided to bring the case to the attention of the General Assembly of the United Nations.

(II)

For many generations, the Czars of Russia cherished imperialistic designs upon China. These imperialistic designs were continued, and on a larger and more fearsome scale, after the Communist Party came to assume absolute power in Russia.

There is, however, a basic difference between the Czarist and the Communist programs of imperialistic aggression. While those of the Czars were carried out with what might be termed the old-fashioned methods of aggression, the Soviet Government is employing, in addition to the old methods, a new and potent weapon of aggression — the creation and support of the Communist Party in China. Since its establishment in 1921, the Chinese Communist Party has given definite and conclusive evidence that it is completely subservient to the dictates of Moscow. I quote from an authoritative statement of Mao Tse-tung, the leader of the Chinese Communists :—

"According to the Constitution of the Chinese Communist Party, all who recognize the Constitution and Rules and Program of the Communist International and the Chinese Communist Party (Chapter I, Section 1) . . . may become Party members. . . . The Chinese Communist Party was born with the help of the Communist International; it grew up under the guidance of the Communist International, and the Chinese Revolution developed under the guidance of the Communist International. The Chinese Communist Party and its Central Committee, with the exception of the two short periods under Chen Tu-hsiu-ism and Li Li-san's party line, have been loyal to the guidance of the Communist International. The Central Committee in the periods under Chen Tu-hsiu-ism and Li Li-san's party line did not obey the Communist International, thereby bringing about the failure and the great setback of the Revolution in 1930. To carry out the international line and to be loyal to the Executive Committee of the Communist International is to guarantee the success of the Chinese Revolution." (Mao Tse-tung, "Chinese Communist Handbook on Party Organization," Chapter 6, Section II.)

The Chinese Communist Party has been in open armed rebellion against the Chinese Government. On October 1, 1949, that party announced the formation of a "national" regime, calling itself the "Chinese People's Republic."

This move was so timed that the Soviet Union and its satellites might, even before the General Assembly had an opportunity of discussing this item of the agenda, accord diplomatic recognition to that bogus and puppet regime. This they did on October 3, 1949, two days after its creation, thereby withdrawing their recognition of the Government of the Republic of China. This is the most conclusive evidence that the Soviet Union had been systematically fostering that bogus and puppet regime for the purpose of furthering Soviet imperialistic designs upon China. On October 3, 1949, Dr. George Yeh, Foreign Minister of China, announced the decision of the Chinese Government to sever diplomatic relations with the Soviet Union, on the ground that the Soviet recognition of the bogus regime "is the natural culmination of the long series of violations of the Sino-Soviet Treaty of Friendship and Alliance of 1945 on the part of the Soviet Union," and thus constituted "a threat to the peace and security of the Fart East."[1]

(III)

At the very outset of this debate, it would be well for this Committee to have in mind the fundamental provisions of treaties and the Charter which govern international relations in the Far East.

My fellow delegates will recall that one of the main treaties pertaining to the Far East is the Nine-Power Treaty concluded in Washington between the United States of America, Beligum, the British Empire, China, France, Italy, Japan, the Netherlands and Portugal, on February 6, 1922. The underlying principle of that Treaty was the desire on the part of the contracting parties "to adopt a policy designed to stabilize conditions in the Far East, to safeguard the rights and interests of China, and to promote intercourse between China and other Powers upon the basis of equality of opportunity." Article I of the Nine-Power Treaty provided as follows :—

"The Contracting Powers, other than China, agree:—

(1) To respect the sovereignty, the independence, and the territorial and administrative integrity of China;

(2) To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government;

(3) To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China;

(4) To refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States."

I wish to emphasize that the Nine-Power Treaty of 1922 gave my country the opportunity, in an age of imperialistic encroachments upon China's territorial and sovereign rights of which the Japanese Twenty-One Demands of 1915 were the most infamous, to develop herself along modern lines. It was during that period following the conclusion of the Nine-Power Treaty that the old government at Peking was overthrown and the National Government of China was established with the capital at Nanking. Since its coming into power in 1928, the National Government became, by general agreement, the most effective and stable government in the modern history of China. It instituted a number of progressive political, economic and social reforms. Even after September 18, 1931, when Japan invaded and took Manchuria, it was able to develop and mobilize the resources of the whole nation in preparation for meeting the challenge of Japan on the fields of war. This was duly recognized even by the Soviet Union. PRAVDA, on December 14, 1936, editorialized :—

"The Japanese militarists correctly regarded that the progress of the process of China's unification around the Chiang Kai-shek Government was the deadly peril to the plan of the Japanese militarists to turn China into their own colony."

In a word, it was due to the efforts of the National Government during the decade of 1927-37 that China was able to fight the full-scale Japanese invasion beginning July 7, 1937, a war which China fought alone for four long and hard years until she was joined by other freedom-loving nations of the world, and which did not terminate until final victory was achieved on V-J Day in 1945.

[1] The full text of the statement of Foreign Minister Yeh, read to Mons. Vladimir Varskov, Charge d'Affaires of the Soviet Embassy in Canton, October 3, 1949, at 9:30 P.M., is as follows:—

"Recognition by the Soviet Union of the bogus regime recently set up in Peiping is the natural culmination of the long series of violations to the Sino-Soviet Treaty of Friendship and Alliance of 1945 on the part of the Soviet Union. It constitutes further evidence of Soviet infringement on China's political independence and territorial integrity. No stronger proof than this can be furnished to China's charge pending before the United National General Assembly. There is thus all the more reason for the case to receive full and immediate attention.

"By the Treaty of 1945, the Soviet Union solemnly pledged to recognize the National Government as the only government in China and engaged to give the National Government moral and material support. In recognizing the Peiping regime now in rebellion against the National Government, the Soviet Union not only is tearing the Treaty of 1945 to pieces, she is committing an act contrary to the recognized principles of international law and practices. That the regime set up in Peiping is Soviet sponsored should now be clear to all the world. It is the puppet regime forced upon the people against their will and its ideology is alien to Chinese civilization and the Chinese pattern of life.

"The Chinese Government, in concluding the Treaty of 1945 had hoped that the foundation of peace and security in the Far East would be laid. For this reason China had always observed all her obligations therefrom, in spite of repeated Soviet violations. Recognition of the Peiping regime by the Soviet Union is therefore a threat to the peace and security in the Far East. The Chinese Government in view of the utter disregard by the Soviet Union for the sanctity of treaty obligations, has decided to sever diplomatic relations with the Soviet Union and is taking steps to recall its diplomatic mission and consular posts in the Soviet Union."

The most brilliant hope after the holocaust of the second World War, I am sure my colleagues will agree with me, was the creation of the United Nations. My Government was one of the four sponsoring nations of the San Francisco Conference which drafted the Charter of the United Nations. My country was the first nation in the world to embody the support of the United Nations in the fundamental law of the land, the Chinese Constitution of 1947.

The Charter of the United Nations provides, in Article II, that "all Members shall refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the Purposes of the United Nations," and that "all Members, in order to ensure to all of them the rights and benefits resulting from membership, shall fulfill in good faith the obligations assumed by them in accordance with the present Charter."

It is the contention of my Government that the measures taken by the Soviet Union in China are in violation of the underlying spirit, the Preamble, Article I, and the above-mentioned provision of Article II of the Charter of the United Nations.

I wish now to call the attention of my colleagues to the Treaty of Friendship and Alliance between China and the Soviet Union concluded on August 14, 1945, and the series of annexed Agreements which form an integral part of the Treaty itself.

The Sino-Soviet Treaty was intended to implement the Yalta Agreement of February 11, 1945, which was concluded without the participation of the Republic of China.

For the sake of maintaining solidarity among the allies in the prosecution of the war aginst Japan, and for the sake of finding some basis, no matter how painful, by which China and the Soviet Union might develop that degree of friendliness and cooperation so essential to the maintenance of peace and security in the Far East, the Government of China, upon representation from the Government of the United States, proceeded with the negotiations for a Treaty of Friendship and Alliance between China and the Soviet Union. It was indeed a great sacrifice undertaken by the Government and people of China. The momentous decision was taken on the assumption that, by consenting to these infringements upon her territorial and sovereign rights to a wartime ally, China might contribute to the cause of peace and to the formation of the United Nations, the Charter of which at the time had just been completed.

The Sino-Soviet Treaty provided that the two contracting parties would "act according to the principles of mutual respect for their sovereignty and territorial integrity and of non-interference in the internal affairs of the other." Under the terms of the same Treaty and the Agreements annexed thereto, the Soviet Union, *inter alia*, undertook the following obligations:—

(1) "In accordance with the spirit of the afore-mentioned Treaty (that is, the Sino-Soviet Treaty), and in order to put into effect its aims and purposes, the Government of the U.S.S.R. agrees to give to China its moral support as well as aid in military supplies and other material resources, such support and aid to be entirely given to the National Government as the Central Government of China." (Exchange of Notes, I, A, [1]).

(2) "In the course of the conversations regarding Dairen and Port Arthur and regarding the joint operation of the Chinese Changchun Railway, the Government of the U.S.S.R. regarded the Three Eastern Provinces (that is, Manchuria) as part of China and reaffirmed its respect for China's full sovereignty over the Three Eastern Provinces and recognized their territorial and administrative integrity." (Exchange of Notes, I, A, [2]).

(3) ". . . the Soviet Government will respect the political independence and territorial integrity of the People's Republic of Mongolia (Outer Mongolia)." (Exchange of Notes, II, B, para. 4).

(4) "As for the recent developments in Sinkiang the Soviet Government confirms that, as stated in Article 5 of the Treaty of Friendship and Alliance, it has no intention of interfering in the internal affairs of China." (Exchange of Notes, I, A, [3]).

It will be seen that the provisions pertaining to the respect for the sovereignty and territorial and administrative integrity of areas belonging to another State, and the pledge not to interfere in the internal affairs of another State, are merely statements of principles of normal relationships between nations. Any act at variance with these provisions, even in the absence of a special treaty, would constitute a violation of the Charter of the United Nations.

During the four years during which the Treaty and Agreements were in force, the Soviet Union did not see fit to honor any one of these treaty provisions. On the contrary, she took measures which are entirely contrary to, and inconsistent with, such provisions.

On August 25, 1948, the Chinese Minister of Foreign Affairs, Dr. Wang Shih-chieh, reviewed the whole situation with the then Soviet Ambassador to China, General Roschin, calling attention to the obligations assumed by the Soviet Union under the Sino-Soviet Treaty and annexed Agreements and pointing out the specific cases of treaty violations on the part of the Soviet Union. The Foreign Minister also implored the Ambassador to urge his Government speedily to take steps to rectify these violations and mistakes in order that friendly relations between China and the Soviet Union might be maintained. This effort was to no avail.

(IV)

The Chinese Government is in possession of a vast amount of documentary evidence which proves the charges I have made. I shall now undertake to review the more outstanding cases.

The first outstanding case is with regard to the re-establishment of Chinese authority in the key area of Manchuria.

The Northeastern Provinces of China, which together constitute what is commonly called Manchuria, have an area of 1,063,058 square kilometers and a population of 38,386,500. They are one of the richest areas of China, and indeed of all Asia. The heart region is the great prairie, roughly 1,000 kilometers long and 500 kilometers wide, with extremely fertile soil and a climate favorable to grain-growing. Its products, including wheat, corn, kaoliang, rice, and particularly soybean, are world-renown. It is one of the great granaries of the world, comparable to the Manitoba - Dakota area on the North American continent.

The important mineral resources of Manchuria are coal, iron, dolomite and magnesite, aluminous shale, oil shale, structural and chemical materials, gold, and subordinate amounts of silver, copper, lead, zinc, tungsten and less important metals.

In particular, the coal and iron deposits, the two minerals basic to modern industry, make Manchuria the most important area of China. The total coal reserve in Manchuria has been estimated at nine billion tons. The wartime production was 30,000,000 tons per year. The pre-war pig iron output of Manchuria was about 1,500,000 tons with a steel ingot production of 500,000 to 600,000 tons. During the war years, output increased, and the pig iron output was estimated to be as much as 3,000,000 tons, with a potential steel output of one-half that much.

Manchuria, with the Soviet Union to the north and northeast and with Korea and Japan to the east, has often been the scene of international conflicts, of which the Sino-Japanese war of 1894-95 and the Russo-Japanese war of 1904-05 are the most well known. In September, 1931, the Japanese invaded Manchuria, precipitating a conflict which is now generally regarded as the beginning of the Second World War. As it is well known, it was for the recovery of Manchuria that China took up the challenge of Japan in July, 1937. In recognition of this fact, President Roosevelt, Prime Minister Churchill and Generalissimo Chiang Kai-shek, meeting in Cairo, on Dec. 1, 1943, declared their "purpose" that "Manchuria, Formosa, and the Pescadores shall be restored to the Republic of China."

The Soviet Union, at Yalta, promised to enter the war against Japan ninety days after the defeat of Germany. On August 9, 1945, the Soviet Union declared war on Japan, and the Soviet Army began to march into Manchuria. At that time, the Japanese were suing for peace, and the atomic bomb had been dropped on Hiroshima. On August 14, 1945, exactly five days after the Soviet Union entered the war, Japan capitulated.

After the Japanese capitulated the Soviet Army was in occupation of the whole area of Manchuria, till May, 1946. During the conference at Moscow leading to the conclusion of the Sino-Soviet Treaty, Marshal Stalin stated that Soviet troops would commence to withdraw from Manchuria within three weeks after the capitulation of Japan and that three months would be the maximum for the completion of the withdrawal. These statements were recorded in the minutes and duly initialed.

The behavior of the Soviet Army in Manchuria was such as to create great bitterness among the people. It is a story of which no civilized country can be proud. To save the time of the committee, I am contenting myself with the submission of a document on this matter.

In order to re-establish its authority in Manchuria, it was necessary for the Chinese Government to transport troops into the region. The most obvious and convenient port of entry was the port of Dairen.

On October 1, 1945, the Chinese Ministry of Foreign Affairs formally notified the Soviet Ambassador to China that the Chinese Thirteenth Army was about to be despatched, by sea from South China, to the port of Dairen. It was to be the first step undertaken by the Chinese Government to re-establish its authority in Manchuria.

On October 6, 1945, the Soviet Ambassador, however, informed the Chinese Acting Foreign Minister that "according to the Sino-Soviet Treaty, Dairen is a commerical port, and that it is a port for the transportation of goods, and not of troops." The Soviet Ambassador went further to state that "the landing of troops at Dairen, of whatever nationality, is a violation of the Sino-Soviet Treaty, and will be opposed by the Soviet Government." This statement was later confirmed by a diplomatic note from the Soviet Embassy, dated October 15, 1945.

This surprising position taken by the Soviet Government was completely beyond the comprehension of the Chinese Government. In the Agreement on Dairen, annexed to the Sino-Soviet Treaty of 1945, the Soviet Union had pledged to "respect Chinese sovereignty in the control of all of Manchuria as an integral part of China." In the Note from Mr. V. M. Molotov to Dr. Wang Shih-chieh, August 14, 1945, it was clearly stated that:

"In the course of the conversations regarding Dairen and Port Arthur . . . the Government of the U.S.S.R. regarded the Three Eastern Provinces as part of China and reaffirmed its respect for China's full sovereignty over the Three Eastern Provinces and recognized their territorial and administrative integrity."

On the basis of these underlying principles, the Agreement on Dairen declared the port to be "a free port open to the commerce and shipping of all nations." It further declared that "the administration in Dairen shall belong to China."

It was, therefore, completely beyond the imagination of the Chinese Government that the status of Dairen as a free port should constitute a bar to the landing of forces by the Chinese Government, whose sovereign rights over the port were recognized by all nations including the Soviet Union. In fact, the provisions of the Treaty clearly showed that, with the exception of those rights which were granted to the Soviet Union, the Chinese Government possessed all other rights with regard to Dairen.

Subsequently, the Soviet Government advanced a new argument against the landing and stationing of Chinese troops in Dairen and Port Arthur, namely, that a state of war still existed with Japan.

In the protracted negotiations on this question, which lasted from March, 1947, to September, 1948, the Chinese Foreign Minister repeatedly pointed out to the Soviet Ambassador that the Sino-Soviet Treaty and annexed Agreements contained no provision preventing the landing of Chinese troops in Dairen and Port Arthur, that the Treaty was designed against our common enemy and not against one of the parties to the Treaty, that the Japanese enemy had surrendered for more than a year and no state of hostilities existed, and that under any circumstances the entry of Chinese troops to these ports could not have interfered with the prosecution of the war which the Soviet Government insisted was still in progress.

Furthermore, there were ample instances to show that the Allies had taken over, occupied and garrisoned territories formerly belonging to the enemy, without waiting for the conclusion of peace treaties with the Axis aggressors. The Soviet Union itself was in occupation of the Kurile Islands and the southern half of Shakhalin; the United States has taken over the Pacific islands with the permission of the United Nations; Poland has taken over parts of Eastern Germany. All these acts have been taken without having to wait for the conclusion of peace treaties with Japan or Germany. Dairen and Port Arthur are Chinese territory. If the Allies could take over territories belonging to the enemy before formal peace was concluded, there is absolutely no reason why China should, on that fantastic pretext, be prevented from taking over areas which properly belong to China.

The fact remained, however, that the Chinese Government was prevented from despatching troops through Dairen, because of the obstacles thus interposed by the Soviet Government.

While further negotiations were being carried on with the Soviet authorities regarding Dairen, the Chinese Government plainly could not afford to wait for a change in Soviet attitude before re-establishing its authority over Manchuria. The Chinese Government, in view of Soviet obstruction to the landing of troops in Dairen in the early part of October, 1945, then informed the Soviet Embassy in China that Chinese Government troops would, in the meantime, proceed to Manchuria via Yingkow and Hulutao, on the Gulf of Chihli, and that they would be

arriving by November 10, 1945. The Soviet authorities, however, informed the Chinese representatives on November 1, and again on November 3, 1945, that the port of Yingkow was already garrisoned by armed units of unknown origin and allegiance, and that the Soviet authorities could not be responsible for the security of the landing of Chinese troops. In other words, Chinese Communist forces had already been permitted by the Soviet Army to take over the ports and were prepared to defy the landing of Chinese Government troops.

Under such circumstances, the Chinese Government then decided to despatch troops into Munchuria by land and by air. The plan was to transport troops by air to the cities of Mukden and Changchun, and that other troops be transported from North China by railway via the Great Wall pass of Shanhaikwan toward those cities. With regard to the question of the transportation of troops by air, the Chinese Government was informed by the Soviet Ambassador on November 13, 1945, that only security forces and gendarmes could be so transported, and that they should proceed only three or five days before the evacuation of Soviet troops. The Chinese Foreign Minister told the Soviet Ambassador that, since the transportation of troops by air, unlike transportation by land or sea, required more time to get in enough troops to garrison and protect the areas concerned, the time limit of three to five days was too short, and that the minimum period of one week would be required. This reasonable request, dictated by the necessary limitations of the airlift, was rejected by the Soviet authorities.

Similarly, the Soviet authorities also refused to give assistance to those Chinese Government troops which were being despatched from North China into Manchuria through the Great Wall pass of Shanhaikwan on the pretext that the Soviet troops in those areas had already been evacuated, which of course was not the case in fact.

Since the transportation of Chinese Government troops into Manchuria by either land, sea or air, was being hampered by the Soviet authorities, and since in any case the Chinese Government, in taking over Manchuria, had to recruit local forces to preserve the peace in the area, the Chinese Government authorities proceeded to recruit peace preservation units in various areas. This move, too, was obstructed by the Soviet authorities.

On October 20, 1945, General Tung Yen-ping, deputy chief-of-staff of the Generalissimo's Headquarters in Manchuria, took up the matter of organizing peace preservation units in Mukden and Changchun with General Pavlovsky of the Soviet Military Mission. The next day, General Pavlovsky informed General Tung that the Soviet Government could not permit the organization of peace preservation units in Manchuria. While continuing to negotiate with the Soviet authorities, General Tung, on January 3, 1946, informed General Torochenko that one such regiment was organized in Changchun. According to the records of conversations, General Torochenko did not make any more objection. However, in the night of January 15, 1946, the Soviet Army suddenly descended and encircled the headquarters of the Chinese peace preservation regiment and disarmed the whole unit. The reason given was that Chinese authorities were secretly organizing underground forces. This reason, like so many others, was completely unfounded, because the whole process was made known to General Torochenko from the very beginning. That the Soviet contention was absurd was further shown by the fact that the Soviet authorities had actually maintained a liaison officer, designated by General Carlof, with the peace preservation unit of Changchun.

Let us pause to ponder over the Soviet accusation that China was organizing underground forces. It was agreed between China and the Soviet Union that Soviet occupation forces should be totally withdrawn from Manchuria within a maximum of three months. Under such circumstances, to organize underground forces for the purpose of hastening Soviet withdrawal would be meaningless. In this matter, China could have only one purpose; that is, to preserve peace and order and to re-establish China's administrative authority in Manchuria. The Soviet Union's purpose in perventing China from local recruitment was none other than trying to prevent the National Government of China from re-establishing its authority in Manchuria.

(V)

This Soviet policy of preventing the National Government of China from re-establishing its authority in Manchuria was supplemented by the policy of aiding the Chinese Communist forces to take over areas evacuated by the Soviet Army.

One of the favorite means employed by the Soviet authorities in Manchuria for this purpose was their refusal to advise the appropriate Chinese authorities of the exact dates of the withdrawal of Soviet

troops. They insisted upon keeping their plans secret until two or three days beforehand, thus making it impossible for Chinese Government forces to assume control. The Chinese Communists, however were always previously informed of Soviet plans, and were therefore able to occupy the areas in the wake of Soviet withdrawal, and through occupation to defy the Government troops.

I have already mentioned the Soviet insistence that only three to five days could be allowed as prior notice of Soviet withdrawal. In the case of the important city of Mukden, however, the Soviet authorities did not even give such a short notice. They just departed suddenly, and upon withdrawal, also destroyed part of the railway north of the city. General Tung Yen-ping reported from Mukden that the Soviet forces had actively assisted Chinese Communist forces at Kaiyuan and Changtu, points northeast of Mukden, to block the entry of Chinese Government troops into that city. These same Chinese Communist troops also launched an attack upon the key point of Szepingkai, north of Mukden, immediately after Soviet withdrawal from that city, on March 16, 1946. It was clear that these Communist attacks upon Government troops would not have been possible without advance knowledge of Soviet plans, which were kept from Chinese Government authorities.

The Chinese Government, however, persisted in its effort to negotiate with the Soviet authorities, in the hope that some working arrangements might ensue. On April 1, 1946, an agreement was reached between Chinese and Soviet authorities, which gave specifications of the procedure and dates of Soviet withdrawal and Chinese re-establishment of authority at various points.

However, it was still the contention of the Soviet authorities, as revealed by the statement of General Torochenko to General Tung Yen-ping, that "our [Soviet] troops stationed north of Changchun cannot await the arrival of Chinese Government troops before withdrawal, and that we [Soviet authorities] can only transfer our responsibility to whatever existing military forces there are."

This statement was of the utmost importance because what was meant by "whatever existing military forces there are" was precisely Chinese Communist forces which were being assembled through advanced knowledge to prepare for attack and occupation in the eventuality of Soviet withdrawal. This was clearly borne out by the case of Changchun. The Soviet troops left Changchun on April 14, 1946. Two days later Chinese Communist troops took the city and the civilian personnel and military representatives of the Chinese Government in Changchun were compelled to evacuate from the city. The consequences of Soviet policies were shown by later developments. When the Soviet Army finally left Manchuria, the whole area north of Changchun, including such large metropolitan centers as Harbin, Tsitsihar, Kiamusze, etc., was turned over to the Chinese Communists. In other words, the whole area was left by the Soviet Army to "existing military forces" which the Soviet authorities had fostered in the area. A more deliberate and Machiavellian scheme cannot easily be imagined.

By thus leaving a substantial portion of Manchuria to the Chinese Communists, the Soviet Government had laid the groundwork for the rapid growth and expansion of Communist strength in China. Manchuria, in fact, was turned into the base of operation of the Chinese Communists in the open armed rebellion against the Chinese Government.

(VI)

I have so far shown how the Soviet military authorities in Manchuria obstructed the efforts of the National Government of China in re-establishing administrative authority in Manchuria. These obstructions are in direct violation of the Sino-Russian agreement whereby "... the Government of the U.S.S.R. agrees to give to China its moral support as well as aid in military supplies and other material resources, such support and aid to be entirely given to the National Government as the Central Government of China."

I have also shown how the Soviet authorities, by giving the Chinese Communists advance information in regard to Soviet withdrawal, enabled the Chinese Communists' forces to occupy the areas as fast as they were evacuated by the Soviet Army.

Now I wish to present to this Committee facts relating to Soviet active aid to the Chinese Communists.

Soviet active assistance to the Chinese Communists took a variety of forms. One of them was to facilitate their infiltration into Manchuria from North China, there to receive the arms and ammunition captured by or surrendered to the Soviet authorities by the Japanese. Another was for the Soviet authorities to permit the Chinese Communists to recruit locally large numbers of Japanese-sponsored puppet troops as well as bandits to augment their military power. Many of these units of puppet troops and bandits were well armed.

According to Chinese Government reports, in the one-month period between August 9 and September 9, 1945, the Soviet Army in Manchuria captured 594,000 prisoners of war, 925 airplanes, 369 tanks, 35 armored cars, 1,226 pieces of field artillery, 4,836 machineguns, 300,000 rifles, 133 radio sets, 2,300 motor vehicles, 125 tractors, 17,497 horses and mules, and 742 depots with munitions and supplies included. In addition, at the time of its surrender, the Japanese Kwantung Army had on its hands 1,436 pieces of field artillery, 8,989 machine guns, 11,052 grenade throwers, 3,078 trucks, 104,777 horses, 21,084 supply cars, 815 special vehicles, and 287 commanding cars. These captured equipment and supplies were not transferred to the Chinese Government. Neither were the surrendered items.

Shortly after V-J Day, the Chinese Communist forces under the command of Lin Piao infiltrated into Manchuria in large numbers, amounting to about 200,000 men. All of them were unarmed. A short time afterwards, these 200,000 men were all fully armed with Japanese equipment and supplied with Japanese munitions. Since all the equipment and supplies of the Japanese forces in Manchuria were either captured by or surrendered to the Soviet forces, the Chinese Communist forces at that time could have only one source of supply — namely, the Soviet Army.

These statements were substantiated by a mass of evidence, and were subscribed to by many neutral reports. I do not propose to burden the members of this Committee with the details. I merely wish to cite three separate instances which showed how this operation was carried out. One such instance was the testimony of a captured officer of the Chinese Communist forces who told how his unit was supplied with captured or surrendered Japanese arms and ammunition by the Soviet troops in Manchuria. A second instance was the report of another officer who told how the Soviet authorities assisted the Chinese Communists in the recruitment of forces, how they supplied these forces, and how they actually helped them in fighting the Chinese Government forces. A third instance showed how the Soviet authorities turned over the Japanese arms and ammunitions to the Chinese Communists in Mukden, and how these Communist forces were permitted to expand under Soviet protection. The full texts of these documents, in translation, follow:—

(A) Testimony of Kuo Cheng-fu, Staff Officer of the Fourth Regiment of the Communist Security Defense Force, Heilungkiang Area, who stated (September, 1946) as follows:—

"During my service with the Chinese Communist army, I was sent in August, 1945, to Hailar to receive from the Soviet Army captured Japanese munitions which the Soviet Army had shipped from Manchouli, totalling 128,000 shells, 1,200 boxes of .38mm rifle ammunition.

"On April 15, 1946, the Soviet Army disarmed the Peace Preseryation forces of Anta and Kaohsiao (both districts of Heilungkiang), and informed by telephone my unit and the Nineteenth Brigade to proceed to the two districts to receive the equipment and munitions of the disarmed units in the morning of April 16. This notification was formally communicated by the Soviet Commander of the Anta District, Pelolof, to Liu Ping-sheng, Supply Officer of my unit."

(B) Report of Tsui Kuo-ching, former Commander of the South Liaoning Area Unit of the Northeast Liberation [Communist] Army, who stated as follows:—

"In the middle of September, 1945, eleven representatives of the Chinese Communists, led by Teng Hsi-feng and Wang Ying, came to my area to organize a 'People's Armed Peace Preservation Brigade.' They told me that they came from Liaoning, and that they were acting under orders of the Communist Hopei-Jehol-Liaoning War Area. I reported their activities to the Soviet Commander in the area, Kachilof, who informed me that since these Communists were Chinese forces, they should be given assistance. The Communist representatives were able within ten days to recruit about 5,000 men, mostly laborers, under Soviet protection.

"The Soviet Commander also turned over to the newly recruited forces captured Japanese equipment and munitions and supplies from Japanese warehouses. The Soviet Command was in daily conference with these Communist leaders.

"In the middle of November, 1945, the Communist forces (numbering 40,000) were attacking Government forces in the areas of Chitungku and Lungchangchou, east of Haichen. After

a three-day battle, the Communists were thrown back. On November 24, 1945, the Communists staged a counter-attack with 60,000 men in the areas of Chienshan, Papanling, and Shanyintse, south of Liaoyang. These Communist forces were actively supported by 3,000 Soviet troops, spearheaded by Soviet artillery units and tank units, and assisted by Soviet airplanes. The battle lasted for a whole week. The Government forces suffered severe losses and retreated to the mountainous areas of Haicheng and Choyien."

(C) Report of Chin Chun, Officer of the Peace Preservation Headquarters of the Northwest, who stated as follows:—

"On September 6, 1945, at 10 A.M., an officer of the Communist Hopei-Jehol-Liaoning War Area, Sixteenth sub-area, Tseng Ke-lin, and his Political Comissar, Tang Kai, arrived at Mukden from Chingchow by train. The Soviet Commander of Mukden refused to premit them to leave the train, awaiting instructions from his superiors. After consultations, however, they were permitted to disembark at 9 P.M. the same day, and were stationed near the South Gate, known as Hsiaohoyen. The next day, the Soviet Commander ordered all civilian and Peace Preservation units of Mukden placed under the direction of the Chinese Communist forces.

"After the entry of Chinese Communist forces into Mukden . . .They forthwith began to expand their forces. Equipment and munitions surrendered by the Japanese and puppet troops, with the exception of a small quantity which found their way into the hands of the general population, were all transferred to the Communists. In Mukden itself, the Communists expanded to some 50,000 men. They used Penchi as their base of operation, and fanned out to areas in Eastern and Southern Liaoning. On September 16, 1945, Chinese Communist Commander Li Yun-cheng of the Hopei-Jehol-Liaoning War Area Headquaraters arrived in Mukden with his troops. My unit was reorganized into the 12th Brigade. . . . Since we suffered from the lack of supplies because of the expansion, negotiations were conducted with the Soviet Command, and we were able to obtain the supplies of the depots under Soviet control."

(VII)

In addition to Japanese arms and ammunition captured by or surrendered to the Soviet Army, which were transferred in large quantities to the Chinese Communist forces in Manchuria to assist them in their armed rebellion against the Chinese National Government, the Soviet Union supplied the Chinese Communist forces with arms and ammunition manufactured in the Soviet Union itself. Some samples of these captured equipment are listed as follows:—

(a) Thirteen cases of explosives manufactured in the Soviet Union captured on October 4, 1946, when the Chinese Communists were dynamiting the railway near Kungchiachiao between Hailung and Meihoko.

(b) Soviet-manufactured rifles captured during the campaigns north of Changchun between November, 1946, and March, 1947.

(c) Soviet-manufactured rifles captured during the fifth Szepingkai campaign, June 10-30, 1947.

(d) German-type Soviet-manufactured rifles captured during the Szepingkai campaign.

(e) Soviet - manufactured air - cooled type heavy machineguns captured during the Szepingkai campaign.

(f) Soviet-manufactured light machineguns captured during the Szepingkai campaign.

(g) Soviet-manufactured artillery shells captured July, 1949, in North Hunan and the Northwest theater.

(h) Soviet-manufactured Sikcarlof machinegun captured during the battle of Hsinhsien, Shansi Province, August, 1946.

(i) 27 machineguns of the same type as (h), captured at the battle along the Chengting-Taiyuan Railway, April 28, 1947. (Photographs of the above items are available for inspection.)

In September, 1947, the Chinese Ministry of National Defense permitted an American correspondent to view the samples of captured equipment. His report, in part, was as follows:—

"This correspondent [Mr. William H. Newton of the Scripps - Howard Press] obtained permission from the Chinese Government to examine the equipment. It is arranged on a long table in a room about ten feet wide and thirty feet long.

"There are Russian machine guns of both 1943 and 1944 models. There are army field radios marked 'Made in Britain' in both English and Russian — apparently British lend-lease items which were given to the Soviets in wartime and later transferred to the Chinese Communists. There is a Russian-made version of the 'walkie-talkie.'

"There are Russian rifles and hand grenades. There are photographs of Russian soldiers and Chinese Communist soldiers taken from bodies of Communists killed in the civil war. There are photographs of Russian supply ships attempting to run the Chinese Navy's blockade between the Russian occupied port of Dairen and the Communist held Chinese port city of Chefoo in Shantung Province.

"There are pictures of Japanese soldiers and soldiers from Soviet occupied north Korea, who were captured with Chinese Communists in the fighting in Manchuria." (WASHINGTON DAILY NEWS, September 24, 1947)

Soviet military aid to the Chinese Communists also included military training which was openly done by Soviet authorities. Soviet instructors were on the staff of Chinese Communist military schools, especially in artillery and mechanized warfare training, at various points in Manchuria. The main school was located at Kiamusze, where a large number of Soviet instructors were concentrated. Soviet instructors also helped in the training of the Communist air force, with one center at Tsitsihar, in north Manchuria, and another center at Khabarovsk, in the Soviet Union itself. The Chinese Consul-General in Khabarovsk reported that, on June 23, 1948, a group of some 50 Chinese wearing Communist air force uniforms were sighted on Marx Street in Khabarovsk.

In addition, large groups of Chinese youths were sent to the Soviet Union for military training. For instance, the Chinese Ministry of National Defense reported that a group of some 300 graduates of secondary schools, all natives of Manchuria, passed through Suifenho in Manchuria on April 27, 1948, on their way to Spask in the Soviet Union, to receive Soviet training in navigation and in amphibious warfare. Another group of 350, composed of students from the North China provinces of Shansi, Chahar and Hopei, passed through Ulan Bator, capital of Outer Mongolia, on July 4, 1948, for advanced training in the Soviet Union. Still another group of 300, from Inner Mongolia, Suiyuan and Chahar, was reported to have gone to the Soviet Union for training in motorized warfare.

(VIII)

When the Japanese surrendered on V-J Day, it was the general policy of the Allies speedily to repatriate the Japanese soldiers and civilians as well as the Koreans who served with the Japanese. During the period immediately following the termination of the war, the Chinese Government, with the assistance of the Government of the United States, carried out this policy of repatriation as a matter of top priority. During this period, no less than 3,000,000 Japanese soldiers and civilians were so repatriated by the National Government of China.

Although the Soviet Union was one of the Allies at war against Japan, and the whole Japanese Kwantung Army deployed in Manchuria surrendered to the Soviet Army, the Soviet Government has to this day failed to carry out the policy of repatriation. During recent months, some small groups were reported to have been repatriated, but the bulk of the Japanese Kwantung Army still remains in Soviet hands.

It has been the policy of the Soviet Government to make use of these surrendered Japanese soldiers to carry out its aggressive policy toward China. On September 28, 1948, Kato Matsudaira, Chief of the Survey Bureau of the Japanese Foreign Office, stated to the press that an estimated 140,000 former soldiers and nurses of the former Japanese Kwantung Army were either serving with the Chinese Communist forces in Manchuria or were living in Communist-dominated areas of China. Matsudaira further stated that 60,000 Japanese were with the Chinese Communist Army in Manchuria, mostly in auxiliary units, and some were in the front lines operating mechanized weapons and heavy artillery. He also stated that thirty former Japanese pilots had recently returned from the Soviet Union and were training pilots for the Chinese Communists to fly between twenty and forty planes formerly belonging to the Japanese Kwantung Army. (NEW YORK TIMES, September 29, 1948)

This statement is substantiated by numerous specific cases in the knowledge of the Chinese Government. The following cases will serve as illustration:—

(1) Kiyoshi Takahashi, captured by the Chinese Government troops in the battle of Fuyu, confessed that he formerly served in the 242nd Division of the Japanese Army, deployed in Korea. He was captured by the Soviet Army, and was ordered to join the Chinese Communist forces at Yenchi to fight against the Chinese Government.

(2) Yoshizo Onuma, who surrendered to the Chinese Government at

Mukden, related that he fought against the Soviet Army in Manchuria between August 11-13, 1945. He deserted the Japanese Army, and was then captured by the Soviet Army. In September, 1946, he was ordered to join the 7th Brigade of the 3rd Division of the Chinese Communist Eighth Route Army, and fought in the battles of Tamu, Nunan, and Szepingkai, against the Chinese Government troops.

(3) The re-enforcments which the Chinese Communists sent from Manchuria to Shantung to relieve the Chinese Communist forces there were composed of a large number of Korean Communist forces. On June 8, 1947, the Chinese Government naval vessel, the Yunshun, captured twelve of these Koran Communists at the approach to the Shantung port of Chefoo.

(4) The Korean Communist unit, under Li Hung-kuang, took the most active part in the rebellion of the Chinese Communists. The 207th Division of the Chinese Government troops in the battle of Nankowchien (60 kilometers northeast of the Fushun Mines in Manchuria), on June 19-20, 1947, captured one flag, four insignia, and fifty-one documents from this unit. During the same engagement, at Tungyingpan, near Fushun, four members of the Chinese Communist foreign legion were captured, of which one was Japanese and three Korean.

(5) The Japanese newspaper in Harbin, reporting on the fall of Changchun stated on April 20, 1946:—

"Of the 60,000 Northeast Self-Governing (Communist) troops, 200 were our (Japanese) countrymen; particularly, the tank unit engaged in the fierce battle of Changchun was composed entirely of Japanese military men captured by the Soviet Army."

(Photographs showing these captured Japanese and Koreans as well as the captured items are available for inspection.)

(IX)

In addition to assisting the Chinese Communists in the training of their military personnel both in China and in the Soviet Union, and in ordering Japanese and Korean forces to fight for the Chinese Communists, the Soviet Government actually permitted its own military force to engage in the operational activities of the Chinese Communists.

One of the most outrageous cases was the participation of Soviet vessels in the Chinese Communist attack upon the Changshan Islands, situated in the Gulf of Chihli, which are within a short distance from the Soviet-dominated area of Dairen and Port Arthur. On July 21, 1949, three Soviet vessels of 1,000 tons each were seen anchoring near the islands, and actually firing shots from their anchorage. These acts were in open violation of the territorial waters of China, at a time when the Chinese Communist forces were making an assault upon the Government garrisons on those islands. This incident formed the subject of a protest by the Chinese Government, August 22, 1949.[2]

[2] The text of the protest gave the essential fact of the case. It reads as follows:—

"The Chinese Government is in receipt of reports stating that, at 1500 hour, July 21, three Soviet naval vessels of 1,000 tons each were sighted on the sea north of the Huangcheng Island, each equipped with two 3-inch guns and seven automatic guns. These vessels were also equipped with radar. The vessels were seen firing several shots from the waters of Huangcheng Island in the direction of the west. After firing those shots, two of the three vessels were seen sailing in the direction of Port Arthur and Dairen.

"The remaining vessel, No. T-609, was sighted at 1630 hour on the same day sailing by Hsiaochin Island toward Tachin Island, and dropped anchor for half an hour 500 meters southeast of Tachin Island. Personnel on the vessel also made inquiries of island fisherman regarding conditions on the island, under the pretext of trying to locate missing airplanes. The vessel later that day dropped anchor between Tochi Island and Tachin Island. At 1100 hour, July 22, the vessel sailed and dropped anchor for two hours between Tungtsui of Tochi Island and Moshihtsui to the west of the island. Personnel on the vessel again made inquiries of the fishermen on the island.

"The marines stationed on the island thereby served warning on that vessel. It then sailed toward the north of Tachin Island, and there dropped anchor for approximately two hours, during which the vessel was seen fathoming the sea. Afterwards, the vessel was seen sailing in the direction of Dairen.

"It will be noted that all these islands are situated within the territorial waters of China. The Chinese Government has further declared that, from zero hour, June 26, 1949, all foreign ships are temporarily barred, a declaration which was formally communicated to the Soviet Embassy on June 20. These Soviet vessels, without permission from the Chinese Government, were sailing into the closed territorial waters of China, and were firing shots, dropping anchor, fathoming the sea, and making inquiries of the local population. These activities show clearly that they were infringing upon the territorial waters of China, and with the intention of interfering with the enforcement by the Chinese Government of its order to close the territorial waters of China.

"In accordance with the above facts, the Chinese Government hereby protests to the Soviet Government, and declares that, if Soviet vessels continue to sail into the territorial waters of China without the permission of the Chinese Government, the Chinese Government would not be responsible for any danger and damage sustained by the Soviet vessels as a result of military action taken by the Chinese Government."

The Soviet Government did not reply to this protest from the Chinese Government. In fact, when the Chinese Communist forces attacked and took the islands in August, they had forty vessels, each capable of fourteen sea-miles an hour and equipped with 2.5cm guns. These vessels came from the Soviet-controlled port of Dairen.

There were also many instances in which Soviet Army personnel actually manned the guns of the Chinese Communist forces. The Chinese High Command reported, for instance, that in the battles of Kungchuling, Meihoko, Szepingkai, Pulantien, fought in Manchuria in 1947, the Chinese Communists were attacking with Soviet artillery manned by gunners from the Soviet Army. Another case was reported in 1948, in which the Chinese Communist artillery forces attacking Linfeng in Shansi Province were commanded by Soviet officers, while the gunners were from north Korea.

In short, the Soviet Government and its authorities in China have been openly aiding the Chinese Communists in their armed rebellion against the Chinese Government. They have been extending extensive military assistance to the Chinese Communists, in practically all phases of military activities, including the supply of arms and ammunition, the training of army, naval and air force personnel both in China and in the Soviet Union, and actual participation in operational activities with Soviet officers and men. Far from extending aid to the National Government of China, as the Soviet Union had pledged to do under the Sino-Soviet Treaty and Agreements, the Soviet Government has pursued the exactly opposite policy of giving large-scale and effective assistance to the very force, the avowed policy of which was the overthrow by armed rebellion of the National Government of China.

(X)

Over and above military aid, the Soviet Government also carried on extensive economic relations with the Chinese Communists, extending to them economic and technical assistance to help exploit and develop the resources of China for their subversive purposes, and to obtain from them Chinese products in return for Soviet military supplies. There are in the records of the Chinese Military Intelligence so many such instances that I can only choose at random a few of them to serve as illustrations of what actually amounted to a very large-scale operation. Here are some of the typical examples in Manchuria:—

(1) February 8, 1947, the Chinese Communists shipped coal produced in Hokiang in Manchuria to Nikolsk in the Soviet Union via Suifenho. In exchange for the coal, the Soviet Union supplied them with a large quantity of military supplies.

(2) February 9, 1947, the Chinese Communists shipped to the Soviet Union from Tsatung (Sungkiang Province) 109 carloads of corn which they had collected as taxation in kind from the farmers.

(3) February 23, 1947, the Chinese Communists supplied the Soviet authorities in Manchuria with wheat grains and soybeans in exchange for ten "Dawn" motor cars which were captured by the Soviet forces in Manchuria.

(4) March 2, 1947, the Chinese Communists in Harbin obtained in exchange for agricultural products, 1,500 Soviet submachineguns, 500 cases of T-38 and T-39 rifle ammunition, ten light machineguns of latest model, ten pieces of field artillery, fifty tanks, and ten sets of machinery for the manufacture of ammunition.

(5) In April, 1947, the Soviet Union supplied the Chinese Communists with fifty heavy trucks which were employed in the Kiamusze area.

(6) April 16, 1947, the Soviet Union supplied the Chinese Communists with ten trucks which were attached to the Communist troops in the Liaoning-Kirin area.

(7) May 20, 1947, the Soviet Union supplied the Chinese Communists with 400 motor cars of which fifty were allocated to Hokiang Province.

In the Communist-dominated area of Shantung, many such instances were also reported. Here are some of the typical cases:—

(1) March 24, 1947, the Chinese Communists in Shantung supplied the Soviet troops in north Korea 8,000 pairs of fur trousers, thirty-six pails of soybean oil, in exchange for which the Shantung Communists received some 3,000 artillery shells.

(2) May 30, 1947, the Soviet steamer Krasin (4,000 tons) sailed for the Shantung port of Chefoo from Soviet-controlled Dairen, loaded with supplies for the Chinese Communists in Shantung.

(3) June 6, 1947, the Soviet steamer Kraisin again called at Chefoo from Dairen, carrying 130 passengers and a 360-ton cargo. The ship sailed back from

Chefoo to Dairen with 200 passengers and a cargo of 1,360 tons.[3]

There are also Chinese Military Intelligence reports showing that the Soviet Government assisted the Chinese Communists in the rehabilitation of the production of military supplies. The following is a list of some of the typical cases:—

(1) The Soviet Government supplied the large Communist arsenal at Mishan, in Manchuria, with six technicians who were captured German experts, specializing in the manufacture of Soviet-type and American-type tommy-guns.

(2) The Soviet Government supplied the Communist arsenal at Tiehli, in Manchuria, some 300 trained workers, some of whom were Soviet citizens, while others were captured Japanese prisoners of war, specializing in the manufacture of hand grenades, shells and rifles.

(3) The factories attached to the Chinese Changchun Railway were remodelled in part for the manufacture of arms and ammunition. The Chinese Changchun Railway Machine Shop and the Dairen Machine Shop, for instance, were so remodelled to supply the Chinese Communist forces in south Manchuria via Kaiping, Haiyoh, and Wafongtien.

(4) The Soviet Government supplied five Soviet experts and three Japanese experts to the Communist arsenals near Fuping, specializing in chemicals.

(5) The Soviet Government supplied 150 trained workers, partly Soviet and partly Japanese, to the Communist arsenal at Mutangkiang in Manchuria, which was remodelled from a power plant for the manufacture of rifles, machineguns and ammunition.

(6) The Soviet Government had extended aid to the rehabilitation of the Mukden arsenal, which was one of the largest arsenals in the Far East.

The Soviet Government, in addition, had also been helping the Chinese Communists in the rehabilitation of transportation and power industries.

(1) On March 13, 1948, fifteen Soviet technicians from Harbin reported for duty at the Hsiaofengman power plant, which was one of the largest power plants in China.

(2) On March 16, 1948, a group of some 100 technicians, forming the Soviet Industrial and Mining Inspection Mission, were despatched from Harbin to various points in Communist-dominated areas to assist in the railway and industrial and mining enterprises.

(3) The Soviet Commerical Mission at Harbin concluded with the Chinese Communists an agreement for the establishment of a joint mining corporation for the development of Manchurian mines. A Chinese Communist served as manager of the corporation and there were two assistant managers, one Soviet and one Chinese Communist. A Soviet expert served as the chief engineer.

(4) On August 2, 1948, the Soviet Government despatched from the Soviet Union to Harbin six Soviet engineers and 450 railway workers to assist in the rebuilding of railways.

(5) On August 10, 1948, the Soviet Government and the Chinese Communists jointly established at Tsitsihar the Heilungkiang Valley Gold Mine Administration, headed by a Soviet citizen, with a Chinese Communist deputy, to control and regulate the gold mine at Hsinanling.

(6) The ASSOCIATED PRESS reported from Nanking (July 24, 1949) in part as follows:—

"Russian technical advisers are reliably reported to have aided the Chinese Communists recently in reopening the war-damaged Tientsin-Pukow Railway, main trunk line linking North China with the Nanking-Shanghai area.

"Travellers say that at least five Russians helped construct a rail bridge over the Hwai River, about 100 miles north of Nanking, replacing a nine-span structure blown up by the Nationalists last February. The railway is of great importance in supplying the Communist drive in South China and in feeding Shanghai." (NEW YORK TIMES, July 25, 1949)

(7) As reported by the LONDON TIMES (October 13, 1949),

"In a long speech at the inauguration of the Sino-Soviet Friendship Association in Peking on October 7, Liu Shao-chi, president of the association and one of the vice-chairmen of the new Chinese Communist central Government, officially confirmed for the first time the presence of Soviet technical experts in China.

"'The Soviet Union,' he said, 'has now sent more than 200 specialists to serve in the north-east (i.e., Manchuria) and other parts of China. These specialists told me that Mr. Stalin had sent them to serve in China on the request of the Communist Party of China.' Mr. Stalin, he added, had instructed them to impart all their knowledge and technique to the Chinese people. . . .

"Liu Shao-chi attributed the rapid restoration of the railways in China to help from the Soviet Union, and said that without this help the rehabilitation of the iron and steel industry at centres like Anshan, in Manchuria, would have proceeded much more slowly. Trade with the Soviet Union had begun, he said, the conditions proposed by the Soviet Union being entirely friendly and self-denying, such as would be impossible with capitalist countries.

"Liu Shao-chi praised the Soviet Union in the warmest terms, advocated the closest Sino-Soviet cooperation in every field, and said that in the future, as in the past, the new China must continue to take the Soviet Union as 'the great teacher.'"

(8) The UNITED PRESS reported, October 15, 1949, the following:—

"The Communist radio in Peiping described a flow of Russian 'experts' into the capital city headed by N. V. Roschin, Soviet Ambassador to Nationalist China, who had presented his credentials to Communist Foreign Minister Chou En-lai Friday.

"The radio said that a third delegation of Russians since the proclamation of the Communist Republic on October 1 had arrived in Peiping. They included the Soviet diplomatic mission and a large delegation of 'cultural workers.'

"The latest group, the radio said, consisted of a number of experts on public health, building and water supply." (NEW YORK TIMES, October 16, 1949.)

(XI)

The most outstanding case of clandestine and illegal transaction between the Soviet Union and the Chinese Communists was the conclusion of a comprehensive barter agreement between the Soviet Union on the one hand and the so-called "People's Democratic Regime in Manchuria," on the other. This Agreement was widely publicized in the Soviet press, and was concluded by an Ecomonic Mission from the so-called "People's Democratic Regime in Manchuria," headed by the Chinese Communist leader, Kao Kang. According to official and press reports, the duration of the Agreement was for one year. Under the Agreement, the Chinese Communists in Manchuria undertook to supply the Soviet Union with soybean, vegetable oils, corn, and rice, in return for machinery, gasoline, petroleum, crude oil, textiles, paper and medical supplies.

On August 6, 1949, the Chinese Acting Foreign Minister lodged a formal protest to the Soviet Government. The Chinese Government protest recalled the provisions of the Sino-Soviet Treaty of 1945 and the annexed Agreements and the many attempts made by the Chinese Government to call the attention of the Soviet Government to its obligations under the Treaty. It stated that the so-called "People's Democratic Regime in Manchuria," with whom the Soviet Government concluded the barter agreement, "is no more or less than a rebel group pledged to overthrow the National Government of China by force." This action, therefore, "is an infringement upon the sovereignty of China over the Three Eastern Provinces (Manchuria)," and showed that the Soviet Union was "purposely

[3] The following is the full text of a letter addressed to the crew of a Soviet ship from the Communist Administration in the Pohai Area of Shantung Province, which illustrates the degree of cooperation between the Soviet areas and Chinese Communist areas:—

"To the comrades on the ship of our great international friend, the Soviet Union:

"It is a matter of deep regret that, owing to the deficiency on our part and the limitations of transportation facilities, we were unable to help you fully to accomplish the task of your call at our area to transport food, and that you were compelled to drop anchor on the sea. Please pardon us for the inconvenience occasioned by our negligence.

"For the sake of developing trade between Dairen and our area, we are trying to promote traders to go to Dairen in large numbers to establish contacts. Mr. Chang Kung-min and Mr. Chang Ming-sheng of the Tahua Company, Mr. Chang Mo-chin and Mr. Hsu Tan-wu of the Taihwin Food Company, Mr. Pi Cheng-chun of the Chenghua Commercial Company, Mr. Yu Pei-hai of the Tungchang Commercial Company, and Mr. Chao Yo-yu of the Yutaichang Company, are now prepared to proceed to Dairen on your ship, under the leadership of Mr. Su Cheng-ming, who came to our area on board your ship. We can guarantee that these seven gentlemen are reliable and will not engage themselves in other activities. They shall come to you in a few days with Mr. Sun Cheng-ming. When they come, it will be appreciated if they can be granted permission to board your ship for Dairen.

"We are sending to you along with this letter three large boxes of cigarettes, 30 katties of seafood, and one barrel of wine, as our token of comfort. Please accept them as such.

"We present you with the Bolshevik salute!

Signed:
YUAN YEH-LIEH
Commander, Pohai Military Area
CHING HSIAO-CHUN
Political Commissar
LI JEN-FUNG
Chairman of Government"

[Photostatic copy of original letter available for inspection]

violating the Sino-Soviet Treaty of Friendship and Alliance."[4]

[4] The full text of the Chinese Government protest, dated August 6, 1949, reads (in translation) as follows:—

"Since the conclusion of the Treaty of Friendship and Alliance between China and the Soviet Union on August 14, 1945, the Chinese Government, desiring to maintain and promote the traditional friendship between the two countries, had done its very best to fulfill the obligations under the Treaty. The Chinese Government had hoped that the Government of the Soviet Union would similarly respect the said Treaty and fulfill strictly the obligations in the Treaty. The facts, however, were directly opposite to what the Chinese Government expected.

"With regard to the failure on the part of the Government of the Soviet Union to observe the Treaty, the Government of China had on many occasions called the attention of the Soviet Ambassador to China to that failure. On August 25, 1948, the former Minister of Foreign Affairs of China, Dr. Wang Shih-chieh, had a frank discussion of the question with Ambassador Roschin, during which Dr. Wang pointed out the cases in which the Soviet Union had violated the Sino-Soviet Treaty of Friendship and Alliance, and expressed the hope that, for the sake of maintaining the friendship between China and the Soviet Union, the Soviet Union should forthwith rectify the mistaken steps taken.

"That interview took place one year ago. During the past year, the Government of China, on its part, had firmly held its position of strictly observing the Treaty and fulfilling the obligations provided thereunder. On its part, the attitude of the Soviet Union had shown no signs of improvement. The Government of China cannot help feeling that this is most regrettable.

"The Government of China has received reports stating that the Government of the Soviet Union had conducted negotiations in Moscow with a delegation from the so-called 'People's Democratic Regime in Manchuria' and that a one-year commerical agreement was concluded between the Soviet Union and that regime.

"It will be recalled that Exchange of Notes (I) paragraph (1) of the Sino-Soviet Treaty of Friendship and Alliance provided that 'the Government of the U.S.S.R. agrees to give to China its moral support as well as aid in military supplies and other material resources, such support and aid to be entirely given to the National Government as the Central Government of China.' The so-called 'People's Democratic Regime in Manchuria,' with whom the Soviet Union had just concluded a commerical agreement, is no more or less than a rebel group pledged to overthrow the National Government of China by force.

"The above-mentioned Exchange of Notes, paragraph (2), provided that 'the Government of the U.S.S.R. regarded the Three Eastern Provinces as part of China and reaffirmed its respect for China's full sovereignty over the Three Eastern Provinces and recognized their territorial and administrative integrity.' The conclusion of the commercial agreement with the so-called 'People's Democratic Regime in Manchuria' by the Soviet Union is therefore an infringement upon the sovereignty of China over the Three Eastern Provinces. It is abundantly clear from the above that the activities of the Soviet Union are purposely violating the Sino-Soviet Treaty of Friendship and Alliance.

"The Government of China, on the strength of the above, hereby strongly protests to the Government of the Soviet Union, and solemnly declares that the Government of the Soviet Union shall be held fully responsible for any consequences arising from the acts of violation of the Sino-Soviet Treaty of Friendship and Alliance."

To this protest, the Soviet Government did not reply.

(XII)

Perhaps the best way to conclude this sordid account of Soviet complicity in the armed rebellion of the Chinese Communists is to cite a few examples of the profuse outpourings of Chinese Communist leaders expressing their profound gratitude to the Soviet Union for the assistance it rendered to their cause, and the Soviet response to such expressions.

The Chinese Communists have been organizing a network of Sino-Soviet Friendship Associations, spread over the area under Communist domination. At the meetings of this association, hundreds of telegrams have been despatched to the Soviet Union and Marshal Stalin, all endorsed by unanimous consent, thanking the Soviet Union in general, and Marshal Stalin in particular, for the "traditional friendly assistance" which they had extended to the Chinese Communists.

At the inauguration of this association in Peiping, July 16, 1949, the Communist commander-in-chief, Chu Teh, spoke as follows:—

"It can be easily seen that the victory of the Chinese people's democratic revolution is inseparable from the friendly aid of the Soviet Union. If the Soviet Union does not exist, if there is no victory of the anti-Fascist second World War under the leadership of the Soviet Union, if there is no such development as the unprecedented growth since 1944 of the world democratic peace front under the leadership of the Soviet Union, the rapid and quick victory of the Chinese revolution as it is today would have been impossible. Even if we were to succeed, it would be impossible to consolidate our gains. Is this not clear?"

At the same time, many similar voices were heard. The Secretary of the Manchurian Bureau of the Chinese Communist Party, Kao Kang, for instance, stated at a public conference in Mukden, August 17, 1949, that "the reason why the people of China are able to achieve such signal victories is because of the aid extended to us by the international group headed by the Soviet Union." This chorus was sung again and again and in a thousand voices throughout the Communist-dominated areas of my country. The same Chu Teh, for instance, stated in an article in the COMINFORM JOURNAL published in Bucharest, September 1, 1949, that the Communist victory in China would have been impossible if not for the "most sincere fraternal and friendly help of the Soviet Union and the proletariat and all the revolutionary people of other countries."

These expressions of gratitude were, of course, warmly received by Moscow and all its satellites, and were also reciprocated. Cominform and Soviet leaders spoke frequently of "the great victories of the Chinese people," which the Soviet press duly elaborated in its editorials. Mao Tse-tung became a hero of the Communist world, and his picture appeared along with Lenin's and Stalin's even at the inauguration of Wilhelm Pieck of the so-called East German Republic. Soviet missions have been sent to China, and their emissaries have told how warmly they felt for the Chinese Communists. All these expressions were coupled with the familiar denunciation of the imperialistic policies of the Western democracies. "We could not," said one Soviet emissary, "but recall with anger that, when we were fighting at Stalingrad, the American imperialists were unwilling to open a second front." "Long live the friendship between the Soviet Union and the Chinese people's democracy!" he shouted, and continued: "This friendship will enable the world to obtain peace, and to bring death to all imperialists!"[5]

[5] These quotations are from a speech of Simonof, who was one of the forty-three-member "Soviet Cultural Workers Group," which went as official representatives from the Soviet Union to Communist-dominated China. Simonof's speech was made on September 29, 1949, in Mukden. Some more passages from the same speech are quoted below:—

"For over twenty years, we people of the Soviet Union have paid special attention and have been deeply concerned over your struggle. When we were still pupils in primary and secondary schools, we were already concerned over news reports of the victories of the Chinese people's armies. When we were in college, we heard with great enthusiasm the heroic exploit of the long march of 25,000 *li* of the Chinese people's armies. When we ourselves were fighting at Moscow and Stalingrad, at Vienna and Berlin, we knew and we remembered, during those days, the heroic fight of the Chinese people's liberation armies against Japanese aggression and against traitors.

"When we were healing our war wounds in our own homes, we could not but recall with anger that, when we were fighting at Stalingrad, the American imperialists were unwilling to open a second front. But in this place, in Manchuria, they were supplying the despicable Chiang Kai-shek with great many airplanes and warships to transport troops to attack the liberation area of China.

"For twenty years, our hearts have always been with you. Therefore, we often say: 'The long friendship between the people of the Soviet Union and the people of China is inseparable, and is very firm!'

"Long live the friendship between the Soviet Union and the Chinese people's democracy! This friendship will enable the world to obtain peace, and to bring death to all imperialists!" (*Ta Kung Pao*, October 1, 1949)

More important than these outpourings of gratitude was the fact that the Chinese Communists had adopted as its fundamental foreign policy that of complete subservience to the Soviet Union. Mao Tse-tung, in his speech on July 1, 1949, stated this policy in unmistakable terms. It is to be the policy of the Chinese Communists, he stated,

"To unite in a common struggle with those nations of the world who treat us on the basis of equality and the peoples of all countries. This is to ally with the Soviet Union, to ally with the new democratic countries of Europe, and to ally with the proletariat and masses of the people in other countries to form an international united front.

"'You lean to one side.' Precisely so. The forty years' experience of Sun Yat-sen and the twenty-eight years experience of the Communist Party have made us firmly believe that in order to win victory and to consolidate victory, we must lean to one side. The experience of forty years and twenty-eight years show that, without exception, the Chinese people either lean to one side of imperialism or to the side of socialism.

"To sit on the fence is impossible. A third road does not exist. We oppose the Chiang Kai-shek reactionary clique who lean to the side of imperialism. We also oppose the illusion of a third road. Not only in China but also in the world, without exception, one either leans to the side of imperialism or to the side of socialism. Neutrality is a camouflage, and a third road does not exist."

"To ally with the Soviet Union." That is the key to the fundamental program of Mao Tse-tung and his comrades. This alliance is, furthermore, to be an exclusive and monopolistic affair. Further down in his statement, Mao Tse-tung loudly proclaimed:—

"Internationally, we belong to the anti-imperialist front, headed by the Soviet Union, and we can look for genuine friendly aid from that front, and not from the imperialist front."

On October 1, 1949, the Chinese Communists announced the establishment of a regime in China, to be known as the "Chinese People's Republic." In the speeches, manifestoes and documents relating to this affair, one reads monotonously the refrain of looking toward the Soviet Union for aid, guidance and leadership. The "Common Program" of the First Session of the so-called People's Consultative Conference,

that is, the fundamental statement on policy, proudly announced that,

"The Chinese People's Republic joins with all peace-loving and freedom-loving nations and peoples of the world, and first of all joins with the Soviet Union, and the various people's democratic nations and all oppressed nations, standing on the side of international peace and the democratic front, to oppose imperialist aggression in order to protect the durable peace of the world." (Chapter I, Article 11)

The Manifesto of the Conference, dated October 1, 1949, reiterated the same thing, emphasizing that the Soviet Union was an ally in opposition to "the war-mongering plot of the imperialists." Mao Tse-tung, in his speech opening the Conference on September 20, 1949, likewise emphasized "standing solidly together with the Soviet Union." Ho Hsiang-ning, one of the women delegates, proclaimed that the Communists "must follow the leadership of Mao Tse-tung to join hands forever with the Soviet Union," because she believed that "the Soviet Union is our teacher," and her comrades should dedicate themselves to fight Anglo-American imperialism which she believed was "on the road to collapse," and implored others "bravely to fight against it," although she felt that "its death is inevitable."

"To ally with the Soviet Union," of course, meant that the Chinese Communists would, as they did in the past, follow every twist and turn of Soviet and Communist world policies. Many eminent historians of the subject have shown how the two policies were coordinated in the past, from the foundation of the Chinese Communist Party in 1921 down to the present day. A recent instance is the manifesto signed by Mao Tse-tung and his associates denouncing the North Atlantic Pact as "an instrument designed to instigate a new aggressive world war and is a threat to human peace and security." The manifesto went on to declare that "if the imperialist aggressive bloc should dare to incite this reactionary war threatening the peoples of the whole world, the Chinese nation will then consolidate the whole people to adopt all necessary measures to join hands with the ally of China, the Soviet Union, and other peaceful democratic forces in other nations, in order to fight solemnly against the instigators of aggressive war, and further to defeat the aggressor, to overthrow the whole system of imperialism, and thereby to achieve the liberation of the whole human race and lasting peace."[6]

(XIII)

I have outlined for the Committee the steps and measures by which the Soviet Union obstructed the re-establishment of national authority in Manchuria by the Central Government in China.

I have also presented to the Committee facts and figures relating to Soviet military and economic assistance to the Chinese Communists in Manchuria.

Now, I wish to ask the Committee to consider Soviet economic designs on Manchuria.

Upon its entry into Manchuria, the Soviet Army proceeded to remove from the land of its ally whatever the Soviet Government considered worthwhile.

On this aspect of the matter, I shall not weary the Committee with details. Fortunately the Committee can find considerable information from the well-known Report of the Edwin W. Pauley Mission on Japanese Reparations. I draw the attention of the Committee only to the following passage:

"Southern Manchuria, which contained over eighty per cent of Manchurian industry, was taken practically unopposed and with little if any damage. . . .

"Upon their arrival in the industrial area of Manchuria, the Soviets began a systematic confiscation of food and other stockpiles and in early September started the selective removal of industrial machinery. . . .

"They concentrated on certain categories of supplies, machinery and equipment. In addition to taking stockpiles and certain complete industrial installations, the Soviets took by far the larger part of all functioning power generating and transforming equipment, electric power generating and transforming equipment, electric motors, experimental plants, laboratories and hospitals. In machine tools, they took only the newest and best, leaving antiquated tools behind. . . .

"By far the greatest part of the damage to the Manchurian industrial complex occurred during the Soviet occupation and was primarily due to Soviet removals of equipment, and to Soviet failure to preserve order."

According to the estimate of Mr. Edwin W. Pauley, the total value of the property removed by the Soviet Army from Manchuria was worth $800,000,000 American dollars. According to the estimate of the experts of my Government, the figure should be more than doubled.

The economic and strategic needs of the Soviet Union should have been met with the conclusion of the Treaty of Friendship and Alliance of 1945, where my Government had agreed to cede to the Soviet Union part share of the trunk railway of Manchuria and part share in the two great ports of Port Arthur and Dairen. On top of these extraordinary concessions, however, Soviet Russia proceeded to despoil Manchuria.

In addition to dismantling and removing these industrial assets of Manchuria under the pretext of "war booty," the Soviet Government proposed to the Chinese Government, on the threat of delaying the withdrawal of Soviet troops from Manchuria, a program for Chinese-Soviet joint operation of industrial and mining enterprises in Manchuria, including civil aviation.

On November 24, 1945, Slatekovsky, Economic Adviser to Marshal Malinovsky, the Commander of the Soviet Army in Manchuria, formally presented such a proposal to Dr. Chang Chia-ngau, Chairman of the Economic Commission of the Generalissimo's Headquarters in Manchuria. Slatekovsky handed to Dr. Chang a list of 154 industrial and mining enterprises (including specified coal mines, power plants, iron and steel industries, chemical industries, and cement industries), comprising over eighty percent of the heavy industry of Manchuria, which the Soviet Government proposed should by placed under the joint operation of China and the Soviet Union.

In a meeting with Marshal Malinovsky, on December 4, 1945, Dr. Chang told the Soviet commander that, in order to avoid any possible misunderstanding, discussion on the subject could only begin after the complete withdrawal of Soviet troops from Manchuria. Marshal Malinovsky, however, felt that it would be advisable to proceed with the discussions.

On December 7, 1945, Slatekovsky again took up the question of the list of 154 enterprises with Dr. Chang, declaring that all industrial enterprises in Manchuria should be regarded as "war booty" of the Soviet Union. Dr. Chang took sharp issue with this statement, and explained that "war booty" was a term confined to enemy combat material and supplies.

[6] The test of the manifesto (in translation) reads as follows:

"The North Atlantic Pact, which will be signed on April 4 by the governments of the United States, Canada, England, Denmark, Norway, Iceland, the Netherlands, Belgium, Luxemburg, Portugal, and Italy, is an instrument designed to instigate a new aggressive world war and is a threat to human peace and security. In view of the fact that peace is indivisible, that security and danger are shared by the peoples of the East and the West, and that in fact the governments of England and the United States are expanding the model of the North Atlantic Pact to the Pacific area, the various democratic parties and groups of China firmly declare that they are opposed to the North Atlantic Pact and any other similar aggressive programs. The various democratic parties and groups of China condemn the aggressive policy of the imperialist government of the United States and its satellites for their violation of the Potsdam Agreement and other agreements for the protection of international peace, for their violation of the Charter of the United Nations, and for their violation of the will for peace of the peoples of the various nations. The various democratic parties and groups of China express deep sympathy with and pledge loyal support to the peaceful and democratic forces of the world, headed by the Soviet Union, in their fight against the threat of a new war. The various democratic parties and groups of China firmly believe that this fight will cause the war-mongering imperialists and their running-dogs in various nations to be condemned by the peaceful peoples of the whole world and to be isolated, and it will cause the plot of a new war to go bankrupt. We believe that the world belongs to the peoples, not to the imperialists and their running-dogs. The current aggressiveness of the imperialists and their running-dogs is only a temporary phenomenon; all their plots and schemes, including themselves, will be exposed by the peoples and will be cast aside by them. The various democratic groups and parties of China further solemnly announce as follows:—if the imperialist aggressive bloc should dare to incite this reactionary war threatening the peoples of the whole world, the Chinese nation will then consolidate the whole people, in obedience to the immortal will of Sun Yat-sen, to adopt all necessary measures and to *join hands with the ally of China, the Soviet Union,* and other peaceful democratic forces in other nations, in order to fight solemnly against the instigators of aggressive war, and further to defeat the aggressor, to overthrow the whole system of imperialism, and thereby to achieve the liberation of the whole human race and lasting peace. We believe that, should war start, the various aggressive imperialist nations will be the vanquished, and the anti-imperialist nations and the victims of aggression will be the victors. This future has already been pointed out by the experience of the second World War."

On July 10, 1948, the Central Committee of the Chinese Communist Party adopted the following resolution (in translation) regarding the Cominform-Tito controversy:—

"The leading bloc of the Communist Party in Yugloslavia, represented by Tito, in its treacherous, erroneous internal and external actions, violates the basic viewpoints of Marxism-Leninism, such as the dissent in principle between socialist and capitalist states . . . and it has therefore fallen into the mire of bourgeois nationalism and bourgeois parties. In view of the fact that the Tito bloc carries out anti-Marxist-Lenin domestic and foreign policies, rejects the fraternal criticisms of the Communist Party of the Soviet Union . . . it has injured the people's cause of Yugoslavia. . . . The Central Committee of the Chinese Communist Party makes the following decision: All cadres of the Party should earnestly study the resolutions of the Conference of the Information Bureau of the Communist Parties (the Cominform) on the question of the Communist Party of Yugloslavia so as to strengthen knowledge about class, party, internationalism, spirit of self-criticism and discipline within the Party."

He declared that industrial and mining enterprises could in no way be regarded as such.

This interview was followed by further discussions between Dr. Chang and Slatekovsky (January 16, 1946) and Marshal Malinovsky, during which the Marshal proclaimed that the proposition for joint operation was for the purpose of maintaining Soviet national defense. He further warned that, since it was his mission to re-establish political authority and to resolve the question of economic cooperation, he would not be able to predict the date of the withdrawal of Soviet troops from Manchuria before these questions were resolved.

The Soviet Government, failing to achieve its aims on a local basis, then took up the question formally through diplomatic channels. On January 21, 1946, the Soviet Ambassador to China, Petrov, made representations to Generalissimo Chiang Kai-shek, President of the National Government of China.

On March 27, 1946, Petrov handed to the Chinese Foreign Minister the formal Soviet proposal for Chinese-Soviet cooperation in the operation of the Manchurian enterprises. The proposal listed the economic enterprises which the Soviet Government suggested should be jointly operated by the Chinese and Soviet Governments. They included the principal coal mines, iron mines and foundries, steel mills, oil refineries, cement plants, power plants, salt mines, and also the airfields at the principal cities of Manchuria, which were to be jointly operated through the organization of a Chinese-Soviet corporation of civil aviation. It was further proposed to form a Chinese-Soviet joint stock company, the Chinese and Soviet governments each holding fifty percent of the stock, with a Chinese as chairman of the board of directors, and a Soviet citizen as the vice-chairman.

The administration of these enterprises, according to the Soviet proposal, was to be entrusted to a general manager to be appointed by the Soviet and an assistant manager to be appointed by the Chinese. The Chinese-Soviet joint stock company should operate these enterprises for thirty years, after which all the enterprises concerned would be returned to the Chinese Government without compensation.

Shortly before these formal proposals were laid before the Chinese Government, the Soviet Army Headquarters in Manchuria, during its celebrations of the Red Army Day, dealt belligerently with this question of Chinese-Soviet joint operation of Manchurian industries. Marshal Malinovsky, his economic adviser, Slatekovsky, and General Torochenko, all stressed the great importance of the matter and pointed out that the proposal was designed as a measure, not for monetary profit rewards, but for the sake of Soviet national defense.

Since no basis for agreement could be discovered, the negotiations, both those between local military authorities in Manchuria and those between the Minister of Foreign Affairs and the Soviet Ambassador, led to no results.

However, if my Government had yielded, Manchuria would have become a colony of the Soviet Union. Today, with the Chinese Communists in control of Manchuria, the economic designs of the Soviet Union are being effected step by step. Such imperialism is contrary to the spirit of the age; it violates both the Charter and the treaties between China and the Soviet Union.

(XIV)

The interest of the Soviet Union in the control of the economy of Manchuria, when the above-mentioned negotiations were going on, was so intense that the Soviet authorities went so far as to take all measures, including murder, to discourage and intimidate Chinese Government authorities from taking over the economic enterprises in Manchuria. The most tragic case of its kind was the brutal murder of the Chinese mining engineer, Chang Hsin-fu, which took place in an area garrisoned by the Soviet Army.

Mr. Chang was Special Commissioner of the Chinese Ministry of Economic Affairs. He was despatched to the Fushun coal mines by agreement between the Chinese Director of the Chinese Changchun Railway and the Deputy Soviet Director of the same railway. His special mission was to take over the Fushun mines to supply the urgent needs of the Chinese Changchun Railway. His Soviet counterpart was the Soviet Assistant Deputy Director of the railway. The two representatives were escorted to Fushun from Mukden by Soviet troops on January 17, 1946. When Mr. Chang was at Fushun, he was part of the time under Soviet guards.

January 18, 1946, Mr. Chang was returning to Mukden under Soviet guard protection, in an area garrisoned by Soviet troops. When his train arrived at the station of Lierchan (25 kilometers from Fushun) at 8 P.M., Mr. Chang was forced to leave the train and brutally murdered on the spot with rifle butts. The Soviet authorities never brought the murderers to justice.

(XV)

I wish now to summarize all that I have said in regard to Soviet activities in Manchuria.

It will be seen that the program of the Soviet Union in relation to China during the post-war period, as revealed by its acts of commission and omission, and supported by abundant and incontrovertible evidence, falls generally into three parallel lines of attack.

First, it was the policy of the Soviet Union to obstruct every effort of the Chinese Government to take over Manchuria and re-establish its authority there. The Soviet Union denied to China the use of Darien in transporting troops to Manchuria; it placed obstacles in China's way when my Government tried to use other ports, railways, and air transport. The Soviet Union prevented China from recruiting and organizing local military units to maintain law and order. The Soviet Union refused to furnish prompt and accurate information on the time table of the withdrawal of its troops so that Chinese Government troops might take over the areas as they were evacuated.

Secondly, the Soviet authorities in Manchuria deliberately afforded the maximum and unfettered opportunities for the growth and expansion of Chinese Communist forces, and to permit these forces to use strategic centers of Manchuria as bases of operations against the Chinese Government.

Thirdly, the Soviet Government actively supported the Chinese Communists, militarily, economically and morally, with vast stores of captured and surrendered Japanese arms and ammunition and military supplies manufactured in the Soviet Union itself.

Finally, the Soviet Union took advantage of its occupation of Manchuria and the tragic circumstance of the civil war to demand from China vast economic concessions in Manchuria, comprising eighty percent of the industrial resources of the region and including civil aviation. Although my Government refused these demands, there can be no doubt that the Soviet Union is completing the economic conquest of Manchuria with the connivance of the Chinese Communists.

It goes without saying that these acts perpetrated by the Soviet Union toward China are in open violation of the Sino-Soviet Treaty of Friendship and Alliance and the annexed Agreements which were concluded between the two nations as late as August 14, 1945. While pledging to regard Manchuria as part of China and reaffirming its respect for China's full sovereignty over Manchuria and recognizing its territorial and administrative integrity, the Soviet Union has been using every trick in the books to prevent the Chinese Government from re-establishing its authority over Manchuria. On the contrary, the Soviet Union was actually trying to force the Chinese Government to accept her as a partner over the whole area, giving her part control of over eighty percent of the heavy industries of Manchuria, as well as the operation of all major civil airfields. While pledging to give to the National Government as the Central Government of China moral support as well as aid in military supplies, the Soviet Union did the exact opposite thing of fostering the growth and expansion of the Chinese Communist Party whose program it is to overthrow the National Government of China. This is imperialism in all its nakedness. It is an immoral and cynical program of aggression. It is a flagrant violation of the territorial integrity and political independence of a Member State of the United Nations, and therefore is a violation of the Charter of the United Nations.

(XVI)

I wish now to direct attention to another phase of the question—that of Outer Mongolia.

It will be recalled that, in 1924, an Agreement was concluded between China and the Soviet Union under which it was provided that "the Government of the Union of Soviet Socialist Republics recognizes that Outer Mongolia is an integral part of the Republic of China and respects China's sovereignty therein."

However, when Outer Mongolia declared itself a People's Republic, the Soviet Union, in spite of the Sino-Soviet Agreement of 1924 quoted above, immediately extended to this so-called People's Republic its recognition. In 1936, the Soviet Union went further and signed with the so-called Mongolian People's Republic a mutual assistance protocol. The Chinese Government protested against this protocol. The Soviet Union, however, maintained that, in spite of its recognition and the mutual assistance protocol, the Sino-Soviet Agreement of 1924 still remained in force and denied that the protocol was a violation of that Agreement.

In the Exchange of Notes regarding Outer Mongolia in connection with the conclusion of the Sino-Soviet Treaty of 1945, the Chinese Government declared that, after the defeat of Japan, a plebiscite should be held in Outer Mongolia to

ascertain the will of the people regarding their independence. Should the people desire such independence, as revealed by the results of the plebiscite, "the Chinese Government will recognize the independence of Outer Mongolia." On its part, the Soviet Government, in a note signed by Mr. V. M. Molotov, declared that "the Soviet Government will respect the political independence and territorial integrity of the People's Republic of Mongolia (Outer Mongolia)." A plebisite was held in Outer Mongolia on October 20, 1945, and on January 5, 1946, the National Government of China formally recognized the independence of Outer Mongolia.

According to reports received by the Chinese Government, and reports from other sources, the Soviet Government is maintaining advisers and other personnel in all branches of the government of Outer Mongolia. Soviet officials are attached to all levels of the political and administrative machinery of this so-called independent state, from the central government down to the villages. There are Soviet advisers attached to every unit of the army of Outer Mongolia, and Soviet officers are even participating in the operational activities of that army. The Soviet Government maintains a virtual monopoly of its foreign trade through Soviet agents stationed therein, thus compelling it to supply the Soviet Union with a great part of its material resources.

Since the so-called independence of Outer Mongolia, an iron curtain has descended between that unhappy state and the outside world, including China. But, owing to racial affinity and other factors, and the desire on the part of the Mongolian population to remain free, many of its courageous citizens have succeeded in escaping into China, there to tell a tale of oppression and virtual conquest. The facts clearly show that the Soviet Union has failed to live up to its solemn pledge "to respect the political independence and territorial integrity of Outer Mongolia."

(XVII)

Northwest of Outer Mongolia is the territory of Tannu Uryankhai, sometimes also called Tannu Tuva, with an area of 170,000 square kilometers, or slightly smaller than Austria and Hungary combined, and with a population of 95,000. The case of Tannu Tuva is one of outright annexation of Chinese territory by the Soviet Union.

According to the Kiakhta Boundary Convention of 1727, concluded between China and Russia, the territory of Tannu Tuva was clearly recognized as part of China. The Chinese Government has always recognized it as such, and has never agreed to any change in its status.

The people of Tannu Tuva are close to the people of Mongolia in religion and pattern of life. Their leaders prefer joining Outer Mongolia. But the Soviet Union ruthlessly suppressed the pro-Mongolian sympathies and for many years, while nominally maintaining the so-called People's Republic of Tuva, really exercised a severe protectorate over the region.

However, in March, 1948, it was learned that the Supreme Soviet of the Russian Socialist Federated Soviet Republic (R.S.F.S.R.) had taken a decision, during its deliberations over amendments to the Constitution, to incorporate Tannu Tuva as one of the autonomous regions of the R.S.F.S.R. This decision was taken in connection with Article 14 of the Constitution, which lists Tannu Tuva as one of the six autonomous regions of the R.S.F.S.R.

The Chinese Government, through the Chinese Ambassador in Moscow, strongly protested to the Soviet Union on May 7, 1948, against the annexation of Tannu Tuva by Soviet Russia. The protest was never answered. One wonders how many other People's Republics will suffer the fate of Tannu Tuva.

(XVIII)

I do not propose, in this account, to go into the long and tortuous history of Chinese-Soviet relations relating to the Chinese province of Sinkiang, sometimes known to the outside world as Chinese Turkestan. Sinkiang, the largest of China's provinces, has an area of 1,828,000 square kilometers, with a population of 4,012,000. It borders on Outer Mongolia to the northeast, the Soviet Union for a thousand miles to the north and the northwest, India to the southwest and Tibet to the south. Although its natural resources are yet only partly exploited, it has tremendous possiblities in the development of coal, gold, copper, iron, tin and sulphur. The discovery of oil in Sinkiang has added greatly to the strategic importance of the area.

For a considerable period of time, the Soviet Government has sought to exploit the complicated ethnic situation in Sinkiang to serve her aggressive purposes. It was clearly evident that the Soviet Government was behind the rebellion of the Kazakh chief, Usman, in 1943. In the following year, 1944, the Soviet Government played an active part in support of this

rebellion, going so far as to despatch Soviet airplanes to bomb the Chinese Government troops suppressing the Usman rebellion. On March 2, 1944, at 2 P.M., an observation airplane with plain Soviet insignia was sighted over the Chinese Government positions at Huihoko, south of the district of Chingho. The next morning, at 8 A.M., a fighter airplane with Soviet insignia was sighted over the same area. At 8:30 A.M., March 11, six light bomber airplanes and two fighter airplanes, all bearing Soviet insignia, flew over the area and bombed the Chinese Government troops, inflicting heavy losses. The most severe attack took place on March 15, during which the whole body of Chinese Government troops were either killed or wounded. Under such air cover, the Kazakh chief, Usman, heading a force of 3,000, and ably assisted by Outer Mongolian troops under the command of Soviet officers, succeeded in wiping out the entire Chinese garrison of three regiments.

On March 9, 1944, the Commissioner of the Chinese Ministry of Foreign Affairs in Sinkiang protested to the Soviet Consul-General at Tihwa (Urumchi). On March 14, the latter made a verbal reply, denying Soviet complicity. But, on April 3, 1944, the Tass News Agency stated that "the Soviet Government will be forced to give the Government of the Mongolian People's Republic every necessary help and support." The Chinese Government thereupon demanded further explanation from the Soviet Ambassador to China, Alexander Panyushkin. This demand remained unanswered.

In the meantime, the Soviet Government took further steps to create the Ining Incident, beginning from November 7, 1944. By January 30, 1945, Ining was lost to the rebels. By July, 1945, the whole area of Tahcheng was lost.

While the question of Ining was temporarily settled by the 11-article peace agreement in the autumn of 1945, the Soviet Government then turned its attention to creating disturbances in the whole Ining-Tahcheng-Altai area, and establishing there a so-called Republic of Eastern Turkestan, for the purpose of obtaining special economic privileges. These moves resulted in endangering the security of the whole province of Sinkiang.

As an aftermath of the Ining affair, one of its leaders, Ahmed Djan, who bore the Soviet name Kasimov, joined the Sinkiang Provincial Government, and Usman, the Kazakh chief, was made Special Administrator of the Altai Mountain area. His administration, however, was under the observation and supervision of a Soviet agent. This move drove Usman to turn to the Chinese Government in 1946. Usman also informed the Chinese Government of the activities of the Soviet Government in exploiting the mines in the district of Fuyun with armed miners. This move caused the Soviet Government to launch an attack upon Usman in his Altai Mountain area. In the middle of April, 1947, Usman was compelled to retreat to Peitashan. The Soviet Government then supported the troops of Outer Mongolia to cross the Chinese border in pursuit of Usman in Peitashan, creating the well-known Peitashan affair. Peitashan, incidentally, is situated in the Altai area, and is known to contain uranium deposits.

On June 5, 1947, Outer Mongolian troops crossed the Chinese border, and atacked Chinese Government troops at Peitashan with cavalry units. On the same day, four Soviet airplanes bombed and strafed the Chinese Government positions in support of the Outer Mongolian ground attack.

The Soviet Government, however, maintained the position that the area of Peitashan was within the territorial confines of Outer Mongolia, and therefore the actions taken by Outer Mongolia did not constitute a violation of Chinese territory.

Peitashan is located 200 kilometers northeast of Tihwa (Urumchi), and is 200 kilometers away from the Chinese-Outer Mongolian boundary. These attacks, therefore, constituted an open violation of the territorial sovereignty of China.

On June 11, 1947, the Chinese Government, through its Embassy in Moscow, protested to the Soviet Government, demanding punishment of the persons responsible for the attack and compensations for losses sustained by the Chinese.

This protest was repeated several times subsequently. But the Outer Mongolian troops which crossed the boundary continued to trouble the region.

Although the whole incident is not settled, it is clear that the Soviet Government, in thus taking action to aid Outer Mongolia, violated the Charter and the Sino-Soviet Treaty of 1945, which provided in an annexed agreement that,

"As to the latest events in Sinkiang, the Soviet Government confirms that, as stated in Article V of the Treaty of Friendship and Alliance, it has no intention to interfere with China's internal affairs."

The aggressive imperialist policy of the Soviet Union toward Sinkiang has also

been motivated by designs upon the economic resources, known or as yet unknown, in that province. During the past two decades, the Soviet Government, taking full advantage of the complicated and confused state of affairs in Sinkiang, through the use of force and intrigue, succeeded, without the consent of the Chinese Central Government, in winning privileges and concessions in Sinkiang.

On January 24, 1949, the Soviet Government, through its Consul-General at Tihwa, presented to the local authorities a list of guiding principles to be implemented in a general agreement regarding trade and economic collaboration between the two countries in Sinkiang. The Soviet Government proposed a three-year trade agreement, under which the Soviet Union, through its state agency, would enjoy the privilege freely to import from and export to Sinkiang, without corresponding privileges being granted to China in any part of the territory of the Soviet Union. The "freedom" which the Soviet Government talked about meant that a monopolistic agency of a foreign government could impose any terms over the individual Chinese traders without the possibility of organized bargaining or Chinese governmental protection.

The Soviet Government also proposed that an agreement be concluded for a fifty-year period, setting up Chinese and Soviet parallel companies to explore and exploit the mineral and oil resources of Sinkiang. According to the Soviet proposition, the Soviet Government would claim for itself not only the resources already known, but also those which were not yet explored and tapped. The proposition would also grant the Soviet Union those privileges even after the term of the agreement has expired, there being no provision that the Soviet interests would return to China after the fifty-year period. The Soviet Government also insisted that the general-managers of the above-mentioned companies must be of Soviet nationality to be appointed by the Soviet Government. It was clear that these propositions, if accepted, would grant to the Soviet Union exclusive rights and privileges in Sinkiang, amounting to a monopoly.

Although preliminary exchange of views on a local level commenced on February 7, 1949, the Chinese Government, from the very beginning, insisted that the Soviet proposals were unacceptable. When the Soviet Government concluded with the bogus regime in Manchuria an economic agreement which was in direct violation of the Sino-Soviet Treaty of 1945, the Chinese Foreign Minister, on October 3, 1949, declared that the preliminary exchange of views should be forthwith discontinued.

(XIX)

In my speech before the plenary meeting of the General Assembly on September 29, I said: "I should like to state at the very beginning of my remarks that the question which my Delegation is placing before the General Assembly is not a question between my Government and the Chinese Communists. It is a question between my Government and the Government of the Soviet Union." In accordance with my intention as stated on September 29 I have not presented to this Committee any information on, or analysis of, the domestic policies of the Chinese Communists. I have only called attention of the Committee to the spiritual and material relations between the Chinese Communists and the Soviet Union. I must now proceed to describe the type of international intercourse which the Chinese Communists are enforcing vis-a-vis the outside world other than the countries within the Soviet sphere of influence.

The extension of Communist control in China has meant the simultaneous extension of the iron curtain to China. The process is divided into stages. The preliminary stage is that of a bamboo curtain. The second stage is the wood curtain and the final stage is the iron curtain. Today, Manchuria is sealed behind the iron curtain. Foreign correspondents and travelers, excepting those from the Soviet Union, are not allowed entrance into Manchuria. Even Chinese travelers, entering the Northeastern provinces for any purposes whatsoever, have to face many restrictions and difficulties. North China, with the important cities of Peiping and Tientsin, has reached the wooden curtain stage. News gathering is only permitted to the Chinese Communist official agency and the Tass Agency. The Yangtze Valley and the provinces to the south are still at the bamboo curtain stage.

China, up to the middle of the 19th century, refused commercial, diplomatic and cultural intercourse with the outside world. Through the last hundred years this great wall of self-isolation has been gradually broken. This has entailed much imperialistic oppression over the Chinese people, and, meanwhile, led to the cross-fertilization between the Chinese and Western civilizations. International trade, diplomatic relations, foreign travelers in China and Chinese travelers abroad, missionary schools and hospitals in China, Chinese students in European and American universities have all helped to build an understanding between China and the Western world. On our side we Chinese have learned to appreciate certain political and economic ideas and practices of the West. We have also learned to appreciate Western art, literature, and music. We have made very promising beginnings in learning Western science and technology. This kind of peaceful intercourse between the people of China and peoples of the Western countries has led one Chinese historian to declare that China is at the beginning of a new cycle of history. He regards the interchange of ideas and skills between China and the West to be a process of cross fertilization, beneficial to both sides.

With the rise to power of the Chinese Communists this historical trend in China is being reversed. Today the Chinese people are told by the Communists that Western Europe and the Americas, particularly the United States of America and the United Kingdom, are sources of evil to be shunned by the Chinese. The only culture worth knowing is the culture of the Soviet Union. Sycophant intellectuals have already begun to confess their past sins and to praise the new era. Two months ago the Communist press in China gave great publicity to a letter written by the president of a university in Peiping to Dr. Hu Shih, the noted historian and philosopher. In this letter the Communist neophyte solemnly confessed that three months acquaintance with Mao Tse-tung's NEW DEMOCRACY and other Communist pamphlets had convinced him that his previous thirty years labor in the field of historical research had been entirely wrong and that now, having mastered the dialectic theory of Marx, he was on the road to a new history. One month ago another sycophant intellectual in Peiping announced that the "People's Democracy" in China, although only one month old, had already surpassed the democratic achievements of the United States and Great Britain. This is the usual sad story of the drugging of the minds and souls of people so familiar to Eastern Europe.

In China, the Christian Church, both Catholic and Protestant, is not a political force as it is in the countries of Eastern Europe. Of a population of four hundred and fifty million, only five million are Christians, of whom four million are Catholics and one million Protestants. One would think that the Chinese Communists could well tolerate the Christian Church. But during the last several years, in spite of the fact that they have been busily engaged in a war, the Communists have persecuted the churches. This is a long and tragic story, in many respects worse than what we have learned about religious persecution in Rumania, Hungary and Bulgaria.

I will not weary the Committee with a long tale of the woes of the Christian Church in China. Let me cite certain statistics published by the magazine JESUIT MISSIONS in its issue of April, 1948. During 1946 and 1947 forty-nine Catholic priests and brothers were murdered or tortured to death by the Communists, and 800 priests, brothers and nuns, driven from their missions, fled as refugees to National China. In these two years one hundred and twenty-three Catholic churches were converted into motion picture houses, 166 were looted, and twenty-five destroyed. With respect to mission stations, 245 were looted and eighty-eight destroyed, while twelve Catholic schools were burned and 1,071 were closed.

If we consider the Soviet-inspired Communist movement in China from the angle of world cultural unity, we must pronounce the movement to be the most tragic disaster to the hopes of mankind.

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The above account, long as it is, contains only the highlights of a long and depressing series of breaches of treaty obligations committed by the Soviet Union toward China. It is not meant to be exhaustive. But the instances are sufficient to indicate the extreme gravity of the situation thus created. In this series of sordid acts of commission and omission, perpetrated by the Soviet Union, it is abundantly clear that here is a clear-cut case in which the political independence, sovereignty, and the territorial and administrative integrity of a Member of the United Nations have been wantonly violated by another Member of the United Nations. These acts have been perpetrated in cynical disregard of treaty provisions solemnly entered into between the two States, and in violation of the letter and spirit of the Charter of the United Nations.

The Soviet Union, following the footsteps of the Czars and employing the new weapon of the Fifth Column, is incorporating into its domain vast areas which border on its huge, sprawling empire. Russian expansion, today as in the days of the Czars, achieves its aims through a succession of stages: at first, predominant influence; then protection and control, disguised as special friendly relations; finally, annexation. Let us look at

a map of Asia and note carefully how the Soviet Union has advanced its empire in the recent years.

Before the second World War, the Soviet Union had no influence or interest of any kind in Korea. Today, Northern Korea, from 43rd parallel to 38th parallel, lies within Soviet sphere.

In the midst of the second World War, the Soviet Union sold for cash her railway interests in Manchuria to Japan. With that sale, it liquidated all influence and interest which the Czars bequeathed to the Soviets. Today, the Soviet Union is back in Manchuria, with a part share of the trunk railway and part share of the two great ports of Dairen and Port Arthur. In addition, the Soviet Union has acquired and will acquire many industrial, mining, and aviation concessions from the Chinese Communists on the pattern of the so-called joint ownership and operation. The Soviet boundary has moved from the Amur River to the tip of the Liaotung Peninsula, that is, from the 54th parallel to the 38th parallel.

After the Bolshevik Revolution, Outer Mongolia and Tannu Tuva were for a brief period free from Russian domination. Today, both these areas, whatever the formal aspect of the matter might be, are admitted by all to be provinces of the Soviet Union. In this sector of Asia, the imperial boundary of Russia has moved from the 54th parallel to the 43rd.

In Central Asia, using a combination of economic, political, and military penetration and intrigue, the Soviet Union has fastened its grip on the Chinese province of Sinkiang and pushed its power to the borders of India and Pakistan. In Central Asia, the Soviet Empire has moved its boundary from the 49th parallel to the 34th parallel.

Even at the height of the 19th century imperialism, no movement of imperial expansion can be compared to what Soviet Russia has achieved in Asia in recent years. Stalin has surpassed all the Ivans, Peters, Alexanders, and Nicholases of Russian history. Such a movement partakes of the nature of a glaciation.

(XXI)

I wish now to ask the Committee to consider the consequences of Soviet expansion and the Chinese Communist insurrection on the countries to the south and southwest of China.

That the program of world Communism taking advantage of certain situations in Asia and the Far East to accelerate its expansion has been greatly strengthened by the Soviet-supported Communist insurrection in China is openly admitted by no less an authority than the Cominform itself. THE COMINFORM JOURNAL of October 7, 1949, published in Bucharest, carried the following editorial:—

"Unquestionably the victory of the Chinese revolution will inspire the peoples of colonial and dependent countries to intensify their struggles for national aspirations.

"India, Burma, Indonesia, Viet-nam and other countries of the East—defined by Stalin as the heavy reserves and the main hinterland of world imperialism—have already either become centers of struggle for freedom and national independence or have matured as reserves of the revolution. The People's Republic of China will be their loyal friend and reliable bulwark in the struggle against imperialism."

On January 21, 1949, a Chinese Communist broadcast promised that "a new China . . . will assist in Japan's democratization and prevent the re-emergence of reactionary forces." The same day, in Moscow, PRAVDA's editor Pospelov cited the triumph of the Chinese Communists and predicted "the 20th century will be the century of the complete triumph of Leninism."

M. Leon Pignon, French High Commissioner in Indo-China, stated on July 31, 1949, that there was evidence of cooperation between Communist China and the Viet-Minh of Indo-China. The Chinese Communists, he said, had supplied ammunition and guerrilla fighters to the Viet-Minh (NEW YORK TIMES, August 1, 1949). M. Pignon was in fact underlining what had been known long before. The French Far Eastern headquarters, on March 24, 1949, issued an official communique to the same effect:—

"Since March 15 there has been increased rebel activity, particularly along the Tonkin frontier. Attacks against our posts are growing more numerous in the region north of Langston and east of Laokay. The number of troops employed also have been growing, among which Chinese Communist units have been noted working with Viet-Minh units from Tonkin." (NEW YORK HERALD-TRIBUNE, March 25, 1949)

The situation in Burma is roughly the same. Neutral reports from Rangoon stated that the Chinese Communist chief, Mao Tse-tung

"is reliably believed to have offered Thakin Than Tun (of Burma) a secret mutual assistance pact last February. The pact envisages material aid from the Chinese 'People's Liberation Army' in 'liberating' Burma." (WASHINGTON POST, July 27, 1949)

Reports from Kuala Lumpur described the picture in Malaya as follows:—

"Since the Communist triumph in China, the Chinese in Malaya have been the instruments of the Kremlin's power drive. . . . The broad objective is to keep an armed Communist core in existence in Malaya until help arrives from the North—from China. According to the intercepted orders to the local guerrillas, the Communist victory in China insures that this help from the North will come soon." (WASHINGTON POST, August 11, 1949)

And it is the view of Mr. Malcolm McDonald, the British Commissioner General, that "the jungle guerrillas of Malaya are only waiting for outside help." (WASHINGTON NEWS, September 13, 1949).

It was also reported by the Philippine police that the Chinese Communists had links with the Hukbalahap rebellion in the Philippine Republic, and that one Chinese Communist agent possessed documentation directing him to discuss ways of cooperating with Huk guerrillas in a "general assembly" on or before the Philippine presidential elections on November 8th. (ST. LOUIS POST-DISPATCH, October 11, 1949)

The Communist insurrectionary activities in Southeast Asia were planned and dictated by the international Communist conference held in Calcutta in February, 1948. These insurrectionary activities, now that the Chinese Communists, with active and large-scale Soviet support, have occupied a large portion of China, are likely to spread far and wide. According to the independent observer, Mr. Stewart Alsop, who went on an extensive tour of the whole area:—

"If nothing is done, the sequence of events, as forecast by the most experienced observers in the Far East (and as undoubtedly forecast by V. M. Molotov, now directing the Soviet power drive in Asia) is broadly as follows. The Chinese Communist Armies wil reach the borders of Indo-China and Burma. . . . The promised 'material support' will be delivered to the Communist forces in these countries, and Burma and Indo-China will rapidly be transformed into 'new democracies.'

"When Burma and Indo-China go, Siam will follow—on this point every one (including the Siamese) is unanimous. The long, irregular Siamese-Malayan border will then become an avenue of infiltration and supply for the Communist guerrillas in Malaya, and the British position in Malaya will be rendered untenable. The rest of Southeast Asia gone, the pressure on the harried, new-born Nationalist government of Indonesia will be too great to withstand. . . .

"This is not merely the opinion of this reporter. It is the opinion of every informed observer on the spot." (NEW YORK HERALD-TRIBUNE, August 22, 1949)

(XXII)

Looking back over the catastrophic events of the four post-war years, we see certain things more clearly now than before.

In the first place, Moscow has made, out of world communism and world imperialism, one new poisonous chemical compound. It may be called commu-imperialism or imp-communism. The poisonous strength of the new compound vastly exceeds the strength of either simple world communism or simple world imperialism, taken separately. It is as revolutionary in the political sphere as atomic energy is in the physical sphere. If civilization is to be saved, a coordinated plan of world defense must be made.

In the second place, it is clear that China, having a common boundary with Russia of more than three thousand miles, stands on the frontier of imp-communism in a way in which no other country stands. Observers, confining themselves to the surface of events, have jumped to the conclusion and judgment that China has failed. The judgment, Mr. Chairman, is premature.

I am not here to defend the reputation of individuals or groups in China, but I would like to ask the Committee to keep in mind the broad facts of the situation. As I stated at the beginning of my submission, my Government had been, before 1937, doing effective work to prepare the country to meet the challenge of Japanese militarism. Nevertheless, when war broke out on July 7, 1937, China had no economic surplus. The curse of poverty in China is as old as Chinese history. It is the fault not of one government or one regime. It is the accumulated result of centuries. A real remedy would require a concentrated and continued effort of

several decades. China fought the war not with any economic surplus but by deepening the already deep poverty of the people. The full-scale war lasted eight years. It was coupled with a blockade. These eight years of war and blockade, on top of an old and deep poverty, would be enough to break the back of any country or government. Mr. Chairman: Before anybody pronounces judgment on my country, let him imagine his own country similarly circumstanced and similarly burdened and try to find out what the outcome would be.

The armed conflict in China has so far been unfavorable to the Government. But, Mr. Chairman, there is something more than the scoreboard. The Chinese Communists published certain casualty figures on July 15, 1949, covering the three-year period from July 1, 1946 to June 30, 1949. These figures were reproduced in the NEW YORK TIMES of July 19. They are the figures of the Chinese Communists who undoubtedly understated their losses. Now, the Chinese Communists admit that in the three-year period they had lost 1,432,900 in wounded, killed, captured and missing.

Representative John Davis Lodge stated on the floor of the House of Representatives of the United States on August 16, 1949:—

"Here it is interesting to note the contrast between the above figures and the loss which our (American) armies sustained against the Japanese and Germans. These losses, exclusive of naval and airforce losses, were 948,-574.

"In other words the Chinese Nationalist armies inflicted in three years greater losses on the Chinese Communist armies than the United States sustained in fighting the Japanese and Germans in almost four years. In these circumstances, it is, let us say, at least open to question when the flat statement is made that the Chinese Nationalist Armies have been in ineffective fighting force. Surely, an army which causes more losses to the enemy than the Japanese and the German troops were able to inflict on United States troops in almost four years of combat can hardly be described as totally ineffective."

Mr. Irving Short, a member of the American China Policy Association, having observed a battle for one of the island stepping stones to Formosa, cablegrammed his Association on October 31st of this year as follows:—

"I have just returned from a visit to Kinmen Island 100 miles across the channel from Formosa stop I accompanied General Sun Li-jen, Defense Commander of Formosa and Director of Training of the new army stop We flew in a C-47 loaded with fresh fruit, candies, cakes, cookies and vitally needed medical supplies stop The battle for Kinmen Island may well be a turning point in this struggle for the free way of life stop It is the first time that the new troops of General Sun's training command have met the Reds with sufficient supplies and equipment to be on even grounds stop They met their first battle test and came through with a victory that has amazed everyone here on the spot stop Vastly outnumbered and with nothing but light (75 m/m pack) artillery in general support they repulsed a major Red assault of picked troops stop

"The Reds landed parts of two armies (20,000) troops in the early morning hours of October 25th from junks, sampans and specially constructed assault craft stop The main thrust was made against two regiments of the 201 Infantry Division under the command of Major General Cheng Kuo stop These troops had only recently arrived from Formosa where they had been rigorously trained in the American manner under General Sun Li-jen, himself a graduate of VMI class of '27 stop By dawn of the next day these units had been pushed back almost two miles and the commies were moving to encircle them from their right flank stop At this moment a strong counter-attack by the 118th Division with light tank support into the left flank of the Reds stabilized the situation stop With daylight the Chinese Air Force came in with tactical air support and busted up the Red positions on the beaches desperately trying to re-organize for a final assault stop The Nationalists then counter-attacked and obliterated or drove into the sea or captured the remaining Reds stop It was a decisive battle as all these island battles are stop One side or the other wins stop The Chinese by latest count have rounded up over 7,000 prisoners stop That means that 13,000 Reds were killed or wounded or else were drowned when they pushed back into the sea stop

"I visited the actual battle scenes twenty-four hours after the engagement stop The stench of death still hung heavy over the beaches where the dead were still piled up awaiting burial stop Every type of water-borne craft was strewn along the beaches stop I inspected the Chinese units as well as seeing the Red prisoners lined up on the beach awaiting evacuation stop I was amazed with these Red soldiers after hearing so much of the myth of the wonderful Red Army stop Their uniforms were of even shoddier stuff than the Nationalists and their equipment was of various types stop All of the equipment is now in the hands of the Nationalists stop Over 5,000 rifles, several hundred light and heavy machine guns and even several pieces of artillery stop Several ranking Red officers were captured including one who had the Red attack order in his pocket stop From this order it was evident that the Reds had expected little resistance as they had estimated that they would be in complete control of the island within three days stop The morale of the Chinese forces was considered good considering the heavy fighting that they had just been through and considering that the large majority of them were green troops never in action before stop

"This engagement puts the lie on widely circulated reports in the U. S. that the Chinese will not fight and proved to me what the newly trained units with capable officers and good equipment even limited numbers can do stop"

Much has been said of the aid which the United States Government has given to China. The figure of two billion dollars has been frequently given as the total. Let me present to this Committee an American analysis of this figure. The PITTSBURGH PRESS of April 18, 1949, published an editorial stating in part:—

"The two-billion-dollar figure used to discredit Chiang Kai-shek's Government is made up of three major items: (1) Lend-lease, (2) the value of surplus military goods sold to the Chinese, and (3) the American contribution to UNRRA. None of this was assistance in the war against the Communists. . . .

"Lend-lease expenditures largely were in services, and included carrying out the Japanese surrender agreement. Chinese troops did the job there that our own troops did in Europe. We also charged China the cost of flying supplies over the Hump during the war. Our service charge against China was 607 millions; against Britain it was 426 millions, against Russia 79 millions.

"Yet, although we used Chinese troops and Chinese labor, the Chinese were credited with only 3,000,000 in reverse Lend-lease against 191 millions for Belgium.

"Much surplus property sold to China was in junk condition. We have President Truman's word that no weapons which could be used in fighting a civil war were made available.

"UNRRA supplies were divided between the Nationalists and the Communists.

"We have given China almost no military assistance in the war against the Communists.

"No military funds were voted until April 1948. Only one of the three ships carrying the initial cargoes under this program reached the Chinese mainland."

In order to understand this matter more clearly let me compare the amount of aid to China with the aid to some of the European countries. Let us take Greece. I wish to say that I have the greatest admiration for the Greek struggle against the Communist menace. I do not grudge in the least the generous aid which the Government of the United States has given to Greece. In the period from August, 1947, to March 31, 1949, 318,-000,000 dollars of military aid was given to Greece with her 50,250 square miles and about 15,000 armed Communists, while China received $125,000,000 as help to fight at that time 1,500,000 Chinese Communists in a country of 4,310,000 square miles. Furthermore, dollar for dollar, China obtained, in fact, less benefit than the European nations because a higher price was charged China. For example, China had to pay US $51.00 for each American rifle whereas the Atlantic Pact nations were charged only ten percent of the price, that is, only US $5.10 for that same American rifle.

(XXIII)

Finally I come to this question: What can the General Assembly of the United Nations do? I do not expect the United Nations to do the fighting for China. I know that the General Assembly has not a single rifle or a single plane to give to me even if it wished.

In face of the threat to China's political independence and territorial integrity, the General Assembly has definite Charter obligations. Furthermore, it has at its disposal a great fund of moral power over

the peoples of the world. I only ask that the General Assembly should draw upon its moral fund in the discharge of its obligations. In the first place, I hope that the General Assembly will pronounce judgment on the Soviet Union for obstructing the efforts of my Government in re-establishing its authority in Manchuria and for giving military and economic aid to the Chinese Communists. In the second place, I hope that the General Assembly will recognize that the cause of China's political independence and territorial integrity is a cause common to all the peoples of the world. In the third place, I hope that the General Assembly will recommend to all Member States to desist and refrain from giving further military and economic aid to the Chinese Communists. Finally, I hope that no Member State will accord diplomatic relations to any regime which the Chinese Communists may organize.

The above four decisions are all that I ask of the General Assembly.

While bringing the complaint against the Soviet Union before the United Nations, China remains a loyal Member of the United Nations. China wishes the United Nations to grow in strength so that it could do more in the future than it can do now. If the General Assembly for whatever reason finds it impossible to give to China the minimum or moral aid which I have asked, it would be at once the bankruptcy of the United Nations as well as a big blow to the struggle by the Chinese people for the preservation of their national and individual freedom.

Battles have been fought, but the Chinese people have not yet pronounced their decision and judgment. The Chinese people, both outside and inside the Communist controlled areas are still fighting the Communists. Let the General Assembly say to the millions of fighters for freedom in China: "We are with you."

CHAPTER 14

INDUSTRY

The Ministry of Economic Affairs had pursued a *laissez-faire* policy in the sphere of China's postwar economic reconstruction, but had to resort to wartime controls consequent upon the communist rebellion. Besides supervising all matters relating to industry and commerce, the administration's main efforts have been directed towards these two objectives: expanding China's industrial and mining production, and balancing China's international payments by increasing its export trade. The National Resources Commission, a part of the administration, renders assistance to private enterprises.

FACTORIES IN CHINA

There were in China 15,049 factories with an aggregate capital of CNC$1,078,094,080 at the end of 1947. They were registered with the ministry in accordance with a government order of March 25, 1941. The order requires all factories with the exception of arsenals and war plants to register with the government if they (1) have a paid-up capital of more than CNC$10,000; (2) have a paid personnel of over 30; or (3) use prime movers in production. Of the 15,049 registered factories, 14,529 were privately owned; 10 jointly owned by the government and private interests; one owned by Chinese and foreign interests; 16 foreign-owned, and 493 owned by the government.

The ten factories jointly owned by government and private interests consisted of the following: Machinery, two, capitalized at CNC$6-billion; chemical, one, CNC$500-million; textile, four, CNC$105,704,000; clothing, one, CNC$60,000; and food and beverages, two, CNC$92,040,000.

The 16 foreign-owned factories and their capitalization were: Machinery, one, CNC$6,700,000; chemical, six, CNC$78,100,000; food and beverages, seven,

TABLE 1—REGISTERED FACTORIES (BY INDUSTRY) DECEMBER 31, 1947

Industry	Government Owned		Privately Owned	
	No. of Factories	Capitalization (CNC$1,000)	No. of Factories	Capitalization (CNC$1,000)
Metallurgical	53	269,620	128	6,571,100
Machinery	52	4,977,188	1,849	64,691,880
Metal Works	8	104,950	822	36,127,909
Electrical Manufacturing	17	1,360,600	244	17,971,825
Chemical	157	156,625,723	2,603	201,784,116
Textile	144	1,070,627	3,127	306,306,672
Clothing	5	270,490	929	63,605,156
Food & Beverages	27	2,852,100	3,797	120,142,179
Printing & Stationery	21	243,440	512	24,549,912
Miscellaneous	9	38,480	518	57,212,519
TOTAL	493	167,813,218	14,529	898,963,268

Source: Ministry of Economic Affairs

TABLE 2—NUMBER AND CAPITAL OF REGISTERED FACTORIES (by locality) END OF 1947

Locality	Government Owned		Privately Owned	
	No. of Factories	Capitalization (CNC$1,000)	No. of Factories	Capitalization (CNC$1,000)
Kiangsu	1	2,028,220	610	47,632,550
Chekiang	44	22,555	374	12,328,381
*Anhwei	19	12,083	179	5,417,275
Kiangsi	45	34,260	164	10,389,850
*Hupeh	11	177,373	49	2,786,220
*Hunan	16	380,830	386	11,805,940
Szechwan	54	610,040	1,185	9,774,704
Sikang	9	18,600	3	28,080
Hopei	2	..	111	1,198,110
Shansi	18	90,380	80	706,740
Shantung	7	207,200	85	1,516,572
Honan	..	..	63	1,425,180
*Shensi	29	69,000	154	565,719
Kansu	18	109,794	173	541,016
Fukien	14	19,320	96	1,352,380
Taiwan	..	..	439	13,815,040
Kwangtung	6	31,395	306	24,402,316
Kwangsi	1	11,000	23	4,569,302
Yunnan	26	286,970	220	3,289,380
Kweichow	25	145,850	212	3,724,280
Liaoning	..	..	486	6,164,064
Liaopei	8	18,000	364	2,909,532
*Antung	..	..	55	314,760
Kirin	5	44,400	676	1,743,156
Jehol	..	..	66	94,450
Chahar	..	..	9	323,300
Suiyuan	..	..	21	320,240
Ningsia	1	110	3	15,020
Nanking	5	170,000	55	4,866,500
*Shanghai	60	72,169,940	3,043	512,014,300
Peiping	..	..	3	500,000
*Tientsin	1	500,000	698	14,187,210
*Tsingtao	..	..	1,478	31,444,594
Chungking	45	204,284	1,489	3,312,473
Mukden	..	..	418	3,280,608
Sian	10	206,075	185	1,042,161
Hankow	7	89,295,087	81	6,366,350
*Canton	6	950,452	487	152,795,515
TOTAL	493	167,813,218	14,529	898,963,268

* In addition, there were 17 other factories located in Shanghai. They consisted of 13 foreign-owned factories capitalized at CNC$4,587,090,000; three jointly owned by government and private interests, capitalization, CNC$6,500-million; and one jointly owned by Chinese and foreign interests, CNC$18-million. Two were in Anhwei (they were joint government-private enterprises, capitalization, CNC$464,000). One (joint government-private enterprise, capitalization, CNC$100-million) in Hupeh; one (joint government-private enterprise, capitalization, CNC$5-million) in Hunan; one (joint government-private enterprise, capitalization, CNC$300,000) in Shensi; one (joint government-private enterprise, capitalization, CNC$10,680,000) in Antung; two (foreign-owned, capitalization, CNC$12,700,000) in Tientsin; one (foreign-owned, capitalization, CNC$2-million) in Tsingtao, and one (joint government-private enterprise, capitalization, CNC$81,360,000) in Canton.

Source: Ministry of Economic Affairs

CNC$49,550,000; printing and stationery, one, CNC$4,400-million, and miscellaneous, one, CNC$67,440,000.

One chemical plant was jointly owned by Chinese and foreign interests. It had a capitalization of CNC$18-million.

The food and beverage industry had the largest number of factories, 3,833, followed by the textile industry with 3,275 mills; chemical industry, 2768 factories; machinery, 1,904; clothing, 935; metal works, 830; printing, 534; miscellaneous, 528; electrical manufacturing, 261, and metallurgical industry, 181.

LOCATION OF FACTORIES

These registered factories were scattered in the provinces and municipalities. The largest number, 3,120, were in Shanghai. Other large industrial centers were: Chungking, 1,534 factories; Tsingtao, 1,479; Szechwan, 1,239; Tientsin, 701; Kirin, 676; Kiangsi, 611; Canton, 494; Liaoning, 486; and Taiwan, 439.

EMPLOYMENT

In the 15,049 registered factories, 138,673 staff members and 844,457 workers were employed at the end of 1947, making a total of 983,130. The textile industry had on its payroll 38,141 staff members and 356,283 workers, totalling 394,424, which was by far the largest number employed by any one industry. The chemical industry was second with 174,268, including 28,317 staff members and 145,951 workers; and the food and beverages industry was third with 130,627 of whom 30,239 were staff members and 100,388, workers.

Of the 983,130 persons, 122,109 staff members and 681,877 workers were employed in the 14,529 privately-owned factories; and 16,293 staff members and 160,749 workers in the 493 government-owned factories. The 10 joint government-private enterprises employed a total of 119 staff members and 1,043 workers; the 16 foreign-owned factories carried a payroll of 137 staff members and 761 workers, and the one chemical plant jointly owned by Chinese and foreign interests employed 15 staff members and 27 workers.

In employment, Shanghai led other industrial centers with a total of 36,787 staff members and 278,580 workers on the payroll of 3,120 registered factories at the end of 1947. Chungking, the wartime capital, came next with 14,296 staff members and 84,674 workers; Szechwan, 13,413 staff members and 83,528 workers; Kiangsu, 8,036 staff members and 54,324

TABLE 3—STAFF MEMBERS AND WORKERS EMPLOYED IN FACTORIES AT THE END OF 1947

Industry	Government-owned Factories		Privately-owned Factories	
	Staff Members	Workers	Staff Members	Workers
Metallurgical	2,568	30,551	1,986	14,611
Machinery	2,294	14,320	8,802	49,346
Metal Works	560	3,386	4,354	21,590
Electrical Manufacturing	916	4,436	1,940	9,543
Chemical	3,823	18,207	24,404	127,481
Textile	4,387	78,592	33,735	277,623
Clothing	129	1,298	9,038	51,653
Food and Beverages	651	5,353	29,522	94,656
Printing and Stationery	707	3,791	4,260	16,131
Miscellaneous	258	815	4,068	19,243
GRAND TOTAL	16,293	160,749	122,109	681,877

Source: Ministry of Economic Affairs

workers; Tientsin, 5,930 staff members and 34,667 workers; Shensi, 4,451 staff members and 31,005 workers; Kwangtung, 4,105 staff members and 23,656 workers; Tsingtao, 4,822 staff members and 19,790 workers; Chekiang, 3,651 staff members and 21,810 workers, and Hunan, 3,122 staff members and 18,806 workers.

Prime Movers Used

The 15,049 registered factories used at the end of 1947 a total of 57,218 sets of prime movers which had an aggregate capacity of 559,268.60 hp. and 2,132,333.56 kva. They consisted of 542 steam engines, 912 diesel engines, 436 coal gas engines, 92 water wheel engines, 78 boilers, 1,196 sets of miscellaneous prime movers, 597 generators, and 53,365 motors.

The textile industry employed a total of 30,541 sets with a total capacity of 211,840.25 hp. and 2,075,854.70 kva. Next came the food and beverages industry with 6,103 sets; the machinery industry, 5,769; the chemical industry, 5,721; and the clohting industry, 2,747 sets.

By far the largest number of prime movers was found in Shanghai. It had at the end of 1947 a total of 35,542 sets with an aggregate capacity of 253,477.75 hp. and 205,847.80 kva. Kiangsu came next with 3,134 sets; Chungking, 2,751; Tientsin, 2,580; Tsingtao, 1,858; Szechwan, 1,165; Canton, 1,060; Mukden, 996; Yunnan, 956; and Taiwan, 862 sets.

Enemy Factories Taken Over

Following the Japanese surrender, the Ministry of Economic Affairs sent seven teams to take charge of the enemy and puppet plants. By the end of 1947, 2,685 such factories were taken over. They consisted of the folowing:

In the textile mills were 2,088,736 cotton spindles and 38,591 looms, in addition to wool, silk and linen spindles.

INDUSTRIAL REHABILITATION

Light industries made great strides toward helping China become self-sufficient in consumer goods during the decade before the war with Japan. Factories mushroomed along the coastal regions, particularly in and around Shanghai and Tientsin because of transportation and other facilities. When hostilities broke out, these industries were immediately exposed to enemy attack.

In spite of extreme difficulties, more than 600 factories, with their cumbersome machinery, equipment and personnel, were moved to the interior. Great losses were sustained which could not be replaced because of the enemy blockade. The refugee factories had to struggle on the best they could, with their dwindling stocks and with whatever substitutes they could find for the needed raw materials. Frequent enemy air raids caused further interruption and destruction.

After the war, these factories, whether they remained in the interior or returned to the coast, were in a sad plight. Those which had survived the enemy occupation in the coastal areas had either been heavily damaged by allied bombing or stripped of their essential machinery. Few of China's pre-war industrial plants were left intact.

When the Chinese National Relief and Rehabilitation Administration was first organized, it was hoped that it could

Table 4—Enemy Factories Taken Over

Industry	China Proper	Northeast	Taiwan
Metallurgical	50	22	41
Machinery	222	26	549
Metal Products	48	8	..
Electrical	56	4	..
Chemical	327	55	477
Textile	175	5	50
Clothing	14	..	..
Food and Beverages	159	..	..
Printing and Stationery	25	..	..
Miscellaneous	157	8	207
Total	1,233	128	1,324

Source: Ministry of Economic Affairs

contribute materially toward the early recovery of Chinese industries. But this organization soon found its hands tied down by UNRRA rules and by the reduction of the size of the UNRRA/CNRRA program in this country.

UNRRA regulations limited aid to industries producing goods for relief. The UNRRA/CNRRA program, therefore, looked after the requirements of essential productive enterprises and public utilities such as coal mines, power plants, water works and building materials. The original request was for the importation of 564,000 tons of supplies valued at US$349-million one-third of which was to be paid for by UNRRA. The aid sought consisted of the following:

Table 5—Program for Industrial Aid

Item	Weight (ton)	Value (US$)
Food Processing:		
Flour mills	5,000	5,000,000
Oil presses	3,500	2,000,000
Sugar refineries	3,000	3,000,000
Textile Industry:		
Cotton spinning and weaving	24,000	16,000,000
Wool spinning and weaving	1,500	2,000,000
Building Materials:		
Cement works	20,000	6,000,000
Sawmills	1,600	1,000,000
Fuel Production:		
Coal mines	18,000	5,000,000
Petroleum refineries	12,000	4,000,000
Public Utilities:		
Power plants	30,000	25,000,000
Water works	8,000	2,000,000
Metal Industry:		
Machine shops	18,000	10,000,000
Electrical appliance plants	1,200	3,000,000
Steel and iron works	24,000	16,000,000
Chemical Industry:		
Soda ash plants	2,000	1,000,000
Fertilizer plants	5,000	5,000,000
Caustic soda plants	3,000	2,000,000
Soap factories	3,000	2,000,000
Paper mills	4,000	3,000,000
Rubber works	2,500	2,000,000
Total	189,300	115,000,000

Source: Ministry of Economic Affairs

These supplies were to be used to build a few modern plants in the areas qualified to receive relief benefits to produce urgently needed articles. As to the technical personnel needed to operate these plants, technicians were to be recruited from aboard or Chinese experts were to be sent to study the latest developments in their respective fields in foreign lands. The industrial rehabilitation projects were to be carried out by the Ministry of Economic Affairs with supplies and assistance from the CNRRA. The program for UNRRA aid was later reduced to some US$70-million, or approximately 60% of the original. Supplies for the textile, food processing and chemical industries were greatly curtailed, and the plan for setting up key plants in centralized locations had to be abandoned.

Although supplies for such industries as power, building construction, hydraulic engineering, water and electricity, and coal mining were urgently needed, because of numerous reasons only some 40,000 tons, or slightly one-fifth of the total program, arrived in China by the end of June, 1946. Most of this was U. S. army surplus which had to be overhauled or refitted before being used.

The bulk of the industrial supplies were allocated mostly to the factories under the National Resources Commission under the Ministry of Economic Affairs. The

remainder was distributed to other factories, either government or privately owned which had suffered losses during the war.

Instead of the cotton cloth originally proposed by UNRRA, CNRRA succeeded in getting raw cotton and wheat. The former was delivered to the China Textile Industries Inc., and other cotton mills at cost. Over 300,000 bales were distributed, accounting for over 20% of the raw cotton used in Shanghai. Those mills receiving cotton from CNRRA were required to turn over to it 30% of the cloth made thereof for direct relief and work relief projects. The wheat, amounting to 250,000 tons, was allocated to flour mills.

Rehabilitation of Coal Mines

The National Geological Survey of the Ministry of Economic Affairs estimated China's coal reserve to be 261,174-million tons, excluding that in Sinkiang, Mongolia and Tibet.* This amount is considered to be next only to that of the United States and Canada. Its geographical distribution is roughly as follows: 2% in the Northeastern Provinces; 88% in north China (Hopei, Shantung, Honan, Shansi, Shensi, Chahar, Suiyuan, Kansu and Ningsia), and 10% in other parts of the country.

In the past, coal mining was carried out most extensively in the Northeastern Provinces. In 1934, the National Resources Commission reported that the total coal production in China was 32.7-million tons, of which 12-million tons were mined in the northeast, or 30% of the total. During the war the coal mining centers in the northeast and north China were all under enemy occupation. Most of the colliers were either destroyed or stripped of their equipment. The few which remained in operation suffered from disrepair.

To alleviate the postwar coal shortage, CNRRA undertook to rehabilitate the various coal mines by importing supplies from the United States, Canada, and Great Britain. As of December, 1947, supplies received reached 8,180 tons and were worth US$5,970,000.

Electric generators and other machinery, included in other CNRRA requests for the rehabilitation of coal mines, amounted to 2,193 tons and cost US$2,710,000. Altogether, 10,910 tons of equipment were imported for the various colliers in the country: Honan, 1,450 tons; 700 tons; Shantung, 90 tons; Anhwei, Hopei, 950 tons; Shansi-Suiyuan-Chahar, 1,150 tons; Hupeh, 500 tons; Hunan, 1,570 tons; Kwangsi, 90 tons; Kwangtung, 450 tons; Kiangsi, 1,660 tons; Kiangsu, 450 tons; Taiwan, 1,150 tons; and the Northeastern Provinces, 700 tons.

The delivery of the supplies to the Northeastern Provinces, and north China was somewhat delayed by the unsettled conditions and transportation difficulties. In all other provinces these supplies brought about a marked increase in coal production. The Lihua mines in Hupeh and the Chekang mines in Kiangsi showed an increase of 30 to 40%; the Hwatung mines in Kiangsu and the Patzeling mines in Kwangtung, 60 to 70%; and the Kaokung mines in Kiangsi and the colliers in Taiwan, 80 to 100%.

Rehabilitation of Power Plants

Statistics showed that in 1934 the average per capita consumption of electricity in China was only 3.7 kwh., as compared with 1,848 kwh. for Canada and 322 kwh. for Japan. Power plants in China were centralized in the coastal and lower Yangtze areas, with a few small plants in the interior. These areas came under Japanese occupation during the war.

After the war, much emphasis was laid on the rehabilitation of these power plants. It was planned to procure not only electric generator sets, but also important parts needed to re-equip the existing but damaged generators and accessories. The original program, calling for approximately 30,000 tons of supplies and worth some US$14-million was later reduced. As of December, 1947, the procurement program was as follows: power plants, 6,463 tons; transformers, 1,431 tons; and electric motors, 97 tons; the generator sets to be both diesel and steam driven. The generators were to be distributed as follows: (See Table 6).

Of the supplies listed above, 60% were to go to the public utilities; 21.3% to coal mines; 14.4% to other industries; 3.4% to the Tangku harbor (Tientsin); and 0.9% unassigned.

Rehabilitation of Water Works

Almost all water works in the enemy-occupied cities were disrupted because of destruction to power plants. Most cities in China did not have a good water supply system. Exceptions were Shanghai, Tientsin, Tsingtao, Hankow, Peiping and a few others, where the postwar water supply rehabilitation program was centered. It was planned to procure as much as possible equipment using power other than electricity. Water purification devices also received due attention.

Consequently, water pumps equipped with power units formed the main part of the supplies procured. Electrically-driven pumps numbered only five sets. As a result of these imports, Lanchow reported that its water works, which had suffered greatly during the war, had increased its capacity by 200%, and Shanghai water works, over 10%.

Rehabilitation of Machine Shops

There were over 300 machine shops in China in 1936, but most of them could only duplicate existing models. During the war many moved inland where they made considerable improvement. V-J Day, however, found nearly all machine shops in the occupied areas totally wrecked. Those in the interior either had been damaged by bombing, or they suffered from lack of proper maintenance care. As the production of machines must be resumed before other industries could make much progress, CNRRA contributed heavily towards the rehabilitation of China's machine shops.

Out of US$9,900,000 listed in CNRRA's final budget for the procurement of metal works, US$6,200,000 was earmarked for machinery and building materials for railroad workshops; US$265,000 for machinery and equipment needed for manufacturing sanitary and hygienic articles, and US$3,700,000 for machine tools. The actual procurement fell short of the original plan, however, because of the keen competition of buyers from other countries.

Power generation, metal working, foundry, carpentry, forging and welding material for the railroad workshops amounted to US$5,500,000 and weighed approximately 6,000 tons. Another US$700,000 was spent on 5,400 tons of beams and trusses, and US$3,250,000 on 3,400 tons of medium and small-sized machine shops. Besides this, a full-sized machine shop weighing 300 tons was bought for US$197,000 from U. S. Army surplus. Another US$265,000 was spent on precision instruments and apparatus for the making of clinical and surgical instruments.

Up to the end of 1947, of the total of 15,090 tons of supplies, 13,097 tons had arrived in China. These included 9,957 tons for railroad workshops, 2,910 tons for general rehabilitation, and 230 tons for the National Institute of Biological and Chemical Products.

All the railroad workshop supplies were allocated to the railroad workshop at Wuchang, which by the end of 1947 was engaged in manufacturing spare parts and repairing passenger cars, freight cars and locomotives for the Canton-Hankow, Chekiang-Kiangsi and Hunan-Kwangsi-Kweiyang lines.

The machine tools and precision equipment went to the National Institute of Biological and Chemical Products for the manufacture of small medical and surgical instruments.

* The 1947 figure given by the National Resources Commission is higher. See chapter on "Mineral Resources."

Table 6—Distribution of Generators

Area	No. of Consignees (Power Plants)	Generators (Set)	Total Power (KW)
Hunan	8	10	9,500
Hupeh	3	3	5,150
Kwangtung	4	4	4,500
Kiangsu	17	19	14,460
Kiangsi	5	7	6,980
Hopei	1	2	2,000
Honan	8	9	5,500
Anhwei	4	4	2,906
Chahar	1	1	500
Kwangsi	4	5	1,000
Jehol	1	1	500
Suiyuan	1	1	500
Chekiang	3	3	1,886
Total	60	69	55,382

Source: Ministry of Economic Affairs

In the allocation of machinery to ordinary plants, priority was given to those which could resume production at once. Geographical distribution was also taken into consideration. One set of heavy machine tools was given to the General Machinery Manufacturing Corporation of the National Resources Commission. Its other gifts included water-supply systems, water transport and building materials which enabled it to build by the end of 1947 its own wharves, cranes and trusses. Among its first products were 300 hp. diesel engines, pumps and blowers designed especially for use in small factories.

Four medium-sized repair shops were turned over to the Northwest Industrial Corporation at Taiyuan, Shansi; the Kungyih Iron Works at Wusih, Kiangsu; the Taiwan Iron and Machine Works, and the Mingsun Coal Mine in Honan. Smaller units received consisted of five repair shops, five electric repair shops, and 35 mobile shops, three of which were allocated to the communist areas.

Other beneficiaries of replacement parts were the Shanghai Power Company, Shanghai Water Works, Shun Hsin Cotton Mill, Electric Shop of the National Resources Commission, and Shanghai Municipal Bureau of Public Works. All but the latter two were privately-owned.

Construction Machinery and Materials

To ameliorate the housing shortage and to repair the extensive damage to public buildings, highways and harbor facilities, CNRRA procured some prefabricated houses as well as machinery and materials for reconstruction of the old. The following items had been procured and allocated by the end of 1947:

Cement Supplies—Cement supplies valued at US$4,137,258 were divided among four plants: US$1,575,545 for the Kiangnan Cement Plant at Nanking; US-$105,950 for the Shanghai Cement Plant; US$627,490 for the Sitseng Cement Plant at Canton, and US$1,428,271 for the Taiwan Cement Plant at Kaohsiung. The specifications of these supplies were submitted through CNRRA to the UNRRA which handled the orders.

Brick and Tile Machines—Six sets of such machinery were procured, each weighing 268 tons and capable of producing 100,000 standard-size red bricks in an eight-hour day. They were allocated to six plants: at Changsha, Hunan; Hanyang, Hupeh; Chengchow, Honan; Nanchang, Kiangsi; Nanking; and Shanghai.

Glass Making Machines—Two sets of machinery for making plane glass, each weighing about 1,280 tons and capable of producing 700,000 sq.m. of 2 mm. plane glass annually, were turned over to the Yaohua Glass Company at Shanghai and the Wuhan Glass Company at Hankow.

Cinder Block Machines—Six sets, each weighing 516 tons and capable of producing automatically 9,600 blocks per 8-hour day, were purchased for plants in Tangshan, Hopei; Kaohsiung, Taiwan; Hangchow, Chekiang; Canton, Nanking, and Shanghai.

Concrete Pipe Machines—Two sets of concrete pipe-making machinery, each weighing 25 tons with a daily production capacity of over 10,000 feet of pipes of various diameters, were allocated to the Yangtze Industrial Corporation at Nanking and the Shanghai Cement Plant at Shanghai.

Lumbering Machinery — Altogether 855,041 tons of machinery for the lumbering industry were purchased. Most of it went to Taiwan, Kiangsi, Hunan, Hupeh, Fukien, Kwangtung and Shanghai. None was sent to the Northeastern Provinces, China's best timber lands, because of transportation difficulties and the impounding of supplies.

Building Materials

Of the 170,420 tons of construction materials, worth US$11,032,280, about 44,-354 tons were distributed by the end of 1947. These included 5,218 tons of quonset huts, 12,715 tons of steel and iron, 15,085 tons of wood, and 11,336 tons of miscellaneous materials. Most of the quonset huts were used in Shanghai and Nanking to house the great concentration of refugees. The rest went to Honan, Kiangsi, Hupeh, Hunan, and Kwangsi.

Construction Machinery

During the war, the pressing needs of military constructions called into use numerous new machines, some 30 and 40 varieties of surveying and drawing equipment, and machines for the building of bridges, culverts, dikes, highways, railways and harbors.

CNRRA, therefore, imported for China up to its termination at the end of 1947 over 21,800 tons of these supplies, while the delivery of 3,800 more tons including 3,513 tons of steel bridge parts and 287 tons of tools and parts were still outstanding as of 1948. Of the 21,800-odd tons already received, 65% was used for equipping 15 road-building corps of the National Highway Administration under the Ministry of Communications. The rest was for the construction of railroads, factories and mines.

Replacement and Reconstruction Program

In August, 1948, the Economic Cooperation Administration, (ECA) China Division, in agreement with the Chinese Government, worked out a combined industrial replacement and reconstruction program. This was reached after several months' review and survey of conditions in China by ECA's Reconstruction Survey Group that convinced both the Chinese and American authorities concerned of the urgent need of China's industry for replacement.

Under this program, to be completed probably within two years, US$70-million of the total US$275-million would be spent over replacement and reconstruction operations. It was further agreed that US$35-million, or one-half of this sum, was to be allocated for replacement purposes, while the other half was to finance reconstruction projects.

The aim of the program is to make a significant start toward rehabilitating certain electric power plants, railroads and coal, tin and antimony mines.

Plans were also evolved for full utilization of equipment already made available to China by UNRRA. In addition, U. S. military surpluses would be used wherever possible.

To implement the replacement and reconstruction program, the Chinese Government, represented by its Council for United States Aid (CUSA), an agency of the Executive Yuan, and the ECA China Mission formed a non-voting consultative joint committee of three representatives of the Chinese Government and two representatives of the ECA Mission in October, 1948. The Joint Committee decided to retain as its "technical staff" the J. G. White Engineering Corporation of New York City.

This was a distinct departure from methods employed in previous aid programs by either government, or by the United Nations for the UNRRA program. Heretofore, the practice has been for each government to develop independent staffs and to seek to coordinate the efforts of hundreds of thousands of persons. More often than not, normal and usual channels of trade and established business firms were not used in functions that could be performed more efficiently and economically by private enterprises.

"Project Engineers"

The supervision of the US$70-million ECA replacement and reconstruction program was to be carried out through the J. G. White Corporation which would send to China, for this purpose, a small group of 6 to 10 American engineers: This staff would not undertake any "projects" but would exercise technical supervision over other private firms engaged as "project engineers" engineering firms employed by beneficiaries of the program.

The relationship between the "project engineers" and their clients under ECA procedures requires these engineers to represent the clients in seeking out the best prices and deliveries obtainable in the world markets, and to seek competitive bids on some items. In other words, they are responsible for carrying out the projects at the lowest possible cost in the shortest possible time.

Engineers thus retained are allowed a marginal profit or fixed fee on equipment they handle and, in certain cases, by a profit plus fee for service. There will be no fixed percentage, as the character and amount of work involved—in relation to the money value—will vary widely. In order to carry out the program most efficiently, each "project engineer" is required to sign an affidavit, countersigned by the operator of the project, certifying (1) that on the basis of adequate technical survey the project may be expected to produce the results claimed; (2) that alternative sources of procurement and competitive prices have been investigated to ensure that the prices and local currency costs are as firm as possible; and (3) that the engineering organization guarantees the quickest and most economical methods possible in procuring and installing equipment for the project and will submit progress reports from time to time to authorities concerned.

Replacement and Reconstruction Projects

Up to the end of 1948, 14 reconstruction projects totalling US$22,500,000 had been approved. These were selected on a basis of their possible effect on China's industrial economy, particularly on the increased production of sugar, textiles and power.

The 14 beneficiaries named were:

1. The Yangtze Power Company, US-$1,200,000—This company provided power for Nanking and Pukow. Its dire need for replacement parts had cut down the

industrial production of that region. The allocation was meant to add power-generating capacity to its facilities.

2. The Kailan Mining Administration, US$1-million—This great mining concern produced 50 percent of all the coal mined in China below the Great Wall in the fall of 1948. It was the chief source of fuel supply not only for north China, but for many cities, including Shanghai. The sum for Kailan would enable it continue as the principal coal producer in China.

3. The Tientsin-Peiping Power Grid, US$1,200,000—Although it was one of the most important operations of the National Resources Commission, it had suffered from insufficient capital equipment. The materials and equipment it was to receive would add substantially toward improving its services to the industries of north China.

4. The Taiwan Sugar Company, US-$1-million—Another NRC operation, its economic importance means much to China's export trade.

5. The Canton-Hankow railway, US-$5-million—This rail line is the key to transportation in south China.

6. The Chekiang-Kiangsi railway, US-$2,500,000—The line links the rich area just south of the Yangtze with the Canton-Hankow line.

7. The Peiping-Tientsin railway, US-$1,500,000—This railroad connects these two north China metropolises.

8. The Taiwan railroad, US$1,500,000—It skirts the west coast of Taiwan.

9. The Taiwan Power Company, US-$2,500,000—The company supplies power to important productive plants on the island.

10. Small power plants in south and central China, US$2,500,000—These recipients are operated by the National Resources Commission.

11. Power facilities in Peiping, Tientsin, Taiyuan, Mukden, and Tsingtao, US$2-million—This sum includes that allotted to the Tientsin-Peiping Power Grid listed in Project 3.

12. The Hankow power system, US-$300,000.

13. The Chungking power system, US-$250,000.

14. The Chinese Customs Service, US-$1-million—A part of this money had been designated to purchase replacement parts and equipment for the Customs Preventive Service in suppressing smuggling.

The first four had named their engineers at the end of September, 1948: Anderson Meyer & Co. for the Yangtze Power Company; Jardine Engineering Co. for the Kailan Mining Administration; William Hunt & Co. for the Tientsin-Peiping Power Grid, and the General American Transportation Co. for the Taiwan Sugar Co.

On October 18, 1948, the ECA and CUSA jointly announced an additional sum of US$37,750,000 as provisional allotment under the US$70-million reconstruction and replacement program. Replacements alone were to get US$12,750,-000. This was in addition to US$22,250,-000 already announced for replacement projects, thus bringing the total to US-$35-million. These funds were *grants-in-aid* to the Chinese Government, as had been the case with all replacement projects. (Unlike a loan, a grant is a U. S. dollar credit which does not obligate the Chinese Government to repay.)

The new replacement allotments were for additional replacements for transportation and communication projects, US$6-million; various coal mines replacements throughout China, US$1-million; tin, antimony and tungsten mine replacements in south-central and southwest China, US-$500,000; and other replacements, US-$5,250,000. Prospective recipients of the last-mentioned allotment included power plants which hitherto had been unable to obtain foreign exchange for their replacement needs.

The reconstruction program has received US$25-million in the form of loans, the only ones planned for in ECA's US-$275-million China aid program.

They were to finance the following projects:

1. Coal Mines—Hwainan Mine, Yang tze valley, US$3,500,000; Nanling Mine, south China, US$750,000; native pits, central-south China and Taiwan, US$750,-000; Kaokeng Mine, central-south China, US$4-million.

2. Power—Shanghai Power Company, US$5-million for a topping unit; Taiwan Power Company, US$3,500,000 (including US$1,500,000 to provide for the proposed Taiwan Fertilizer Company).

3. Fertilizer plants — I-Min Fertilizer Co., Taiwan, sponsored by the NRC, Bank of China and Andersen Meyer & Co., US$4-million; NRC fertilizer plants, Keelung, Lotung, Sinchu, all in Taiwan, US$1-million.

4. Yung Li Chemical Co., Nanking, US$500,000.

5. Tin and antimony mines—southwest and south-central China, US$2-million.

POST-WAR PRODUCTION

China's government and privately-operated factories together with those taken over from the enemy contributed a great deal to China's postwar industrial production. In 1947 alone, production in many cases increased from 10 to 70 times and in one case nearly 455 times that of 1945. The output of nitric acid shot up from five metric tons in 1945 to 2,272 m. tons in 1947, and the supply of electric power and the production of cement each increased nearly 20-fold. A large majority of these industries were privately owned. Other privately owned industries which registered increases in their production included:

Coal—Private colliers produced 4,613,-000 of the 5,238,000 m. tons mined in 1945; 15,961,000 out of 20,447,000 m. tons for 1946, and 13,866,000 out of 19,488,000 m. tons for 1947.

Cast Iron—Private foundries were responsible for 25,939 of the total 48,495 m. tons for 1945; 29,674 out of 31,000 m. tons for 1946, and 30,001 out of 35,733 m. tons for 1947.

Steel—In 1945 private mills accounted for only 8,028 m. tons of steel as against 10,206 m. tons produced by government mills. Their production was increased to 8,164 out of 15,700 m. tons for 1946, and 44,493 out of 63,000 m. tons for 1947.

Machine Tools—Private factories manufactured 614 out of the 775 sets of machine tools for 1945; 1,015 out of 1,052 sets for 1946, and 18,915 out of 19,011 sets for 1947.

Machines—Private factories also dominated the manufacture of machines, producing 1,320 out of 1,421 sets for 1945; 2,-033 out of 2,286 sets for 1946, and 68,322 out of 68,814 sets for 1947.

Prime Movers — Against their prime mover production of 1,248 out of 2,866 hp. in 1945 and 1,810 out of 4,765 hp. in 1946, private factories produced 17,845 out of 20,214 hp. in 1947, nearly eight times the production of government plants.

Generators—The manufacture of generators in the postwar years was almost a 100% private enterprise. In 1945 only 628 out of a total of 2,028 kva. of generators were produced by government factories. There was no government production of this item in 1946 and 1947. Private factories were responsible for all of China's generator output of 4,200 kva. in 1946, and 25,224 kva. in 1947.

Motors—In contrast with their production of motors of 766 out of 6,683 hp. in 1945, and 1,245 out of 4,178 hp. in 1946, private factories in 1947 turned out 62,-228 hp. out of a total of 68,391, which was more than 10 times that the government factories produced.

Transformers — In 1945, private factories produced fewer transformers than government plants (4,933 out of 10,496 kva). This record was reversed considerably in the following two years when private interests produced, in 1946, 7,071 out of 12,092 and, in 1947, 124,164 out of 146,680 kva.

Communications Equipment—Against their production of 60 out of 1,435 sets of communciations equipment in 1945, private factories turned out 1,159 out of 1,385 sets in 1946 and 2,246 out of 2,517 sets in 1947.

Lamp Bulbs—Private industry manufactured 131,000 lamp bulbs out of a total of 969,000 in 1945; 1,686,000 out of 3,166,-000 pieces in 1946; and 53,080,000 out of 55,019,000 pieces in 1947.

Cement—The production of cement by private interests: 40,093 out of 42,230 m. tons in 1945; 208,874 out of 292,123 m. tons in 1946; and 492,452 out of 735,929 m. tons in 1947.

Sulphuric Acid—Private interests have led in the production of this and other chemical products for industrial consumption. They produced 201,000 out of 256,-000 m. tons of sulphuric acid in 1945; 6,986,000 out of 7,205,000 m. tons in 1946; and 13,140,000 out of 15,562,000 m. tons in 1947.

Hydrochloric Acid — Private factories produced 337 out of 338 m. tons of hydrochloric acid in 1945 and 2,233 out of 3,002 m. tons in 1946. Government factories produced 3,759 m. tons in 1947. Production statistics of private factories for that year were not available.

Caustic Soda—In the production of caustic soda, private factories were responsible for 3,184 out of 3,342 m. tons for 1945; 57,726 out of 61,178 m. tons for 1946; and 56,735 out of 60,594 m. tons for 1947.

Nitric Acid—All nitric acid was produced by private factories during 1945-1947. The production in 1945 was 5 m. tons; in 1946, 2,294 m. tons; and in 1947, 2,272 m. tons.

Alcohol—Private distilleries yielded 12,-209,000 out of 16,222,000 gals. of alcohol in 1945; 8,987,000 out of 12,379,000 gals. in 1946; and 29,417,000 out of 31,201,000 gals, in 1947.

Paper—Private paper mills were responsible for the total production of 3,900 m. tons in 1945, exclusive of that in the recovered areas. In 1946 and 1947,

they produced, respectively, 57,369 out of 62,678 m. tons and 110,000 out of 125,-187 m. tons.

Cotton Yarn—Privately owned cotton mills accounted for all the 69,000 bales of machine-spun yarn produced in 1945. They turned out 1,118,000 out of 1,544,000 bales for 1946; and 1,268,000 out of 1,974,-000 bales for 1947.

Government Industries

Electric Power — Although producing only 70,136,000 out of 196,263,000 kwh of electric power in 1945, government-owned power plants turned out 910,220,000 out of 1,280,851,000 kwh. in 1946; and 2,005,117,000 out of 3,735,189,000 kwh. in 1947.

Gasoline—The production of gasoline has been under full government control. The output for 1945, 1946 and 1947 were 4,305,000 gals., 5,058,000 gals., and 8,773,-000 gals., respectively.

Minerals — The production of certain critical minerals such as tungsten, antimony and gold is exclusively a government enterprise. For production statistics, see section on the National Resources Commission elsewhere in this chapter, also the chapter on Minerals and Mining.

"People's Livelihood" Industries

The term "people's livelihood industries" as applied in China refers to those industries which have a direct bearing upon the daily life of the people. The following affords a production perspective of coal, electricity and textiles, all of which are under the control of the Ministry of Economic Affairs.

Coal—In spite of the fact that China produced about 14% more coal in 1947 than in 1946, almost every part of the country faced a coal shortage at the beginning of 1948 because of communist disturbances and transportation difficulties. Often surplus coal in one region could not be shipped to another where it was needed.

As of April, 1948, however, a survey of the country's seven coal producing areas indicated that the year's coal output would approximate the national demand of about 15,180,000 tons in 1947.

The Northeast — This area produced 4,578,600 tons of coal in 1947 in addition to 350,000 tons carried over from 1946, totalling 4,928,600 tons in all. This was expected to meet local needs for 1948. Communist disturbances, however, were already affecting the production of mines at Sian in Liaoning and Peipiao and Fusin in Jehol at the end of March, 1948.

North China — This region produced during 1947, 7,420,400 tons of which 1,500,000 tons were shipped to other parts of the country. The remaining 5,920,400 tons, plus a 1946-stockpile of 400,000 tons, were more than sufficient to cover the area's maximum consumption of 5,770,000 tons. If transportation facilities from the Kailan Mines in eastern Hopei had been improved, a considerable increase in the output would have resulted.

Central China—In addition to 180,000 tons stockpiled in 1946, this area produced 2,822,400 tons in 1947 and imported 1,800,-000 tons from other areas, and 50,000 tons from abroad. Efforts were being made in 1948 to increase the production of all central China colliers up to 5,000 tons per month. The annual requirement of this region was estimated at 5,950,000 tons.

South China—This region is most deficient in coal production. It has been producing only 90,000 tons annually whereas its need is estimated at 440,000 tons. The Nanling and Fukuo mines in Kwangtung were expanded in 1947 to produce 200,000 more tons, an amount hardly adequate to cover the needs of Kwangtung alone.

The Southwest — It produces barely enough coal to meet its own requirement of 2,240,000 tons per year.

The Northwest—Against a yearly consumption of 1,220,000 tons of coal, this area produced 1,116,000 tons, hence a deficiency of 104,000 tons. The colliers in Kansu and Shensi were to be expanded in 1948 to increase their output by 300,000 tons.

Taiwan — The island produces nearly twice the amount of coal it needs each year. Of its yearly output of 1,100,000 tons, Taiwan consumes 580,000 tons and ships the rest to Nanking. Shanghai, Fukien, Kwangtung, or Hongkong.

Electric Power—China's total generating electrical power capacity was 1,281,000 kw. in 1946. By March, 1948 it was increased 1,302,000 kw., a gain of 21,000 kw. As of April 15 the same year, the new power plant facilities, capable of generating 83,000 kw., were being imported and installed, and the country's power producing capacity was expected to be increased to 1,383,000 kw. as follows:

Nanking-Shanghai-Hangchow — 26,300 kw. more generating capacity and 162,804 kwh. of power; Central China—5,500 kw. generating capacity and 27,381 kwh. of power; The Southwest—1,500 kw. generating capacity and 5,000 kwh. of power; South China—21,770 kw. generating capacity and 335,535 kwh. of power; North China—32,500 kw. generating capacity and 53,470 kwh. of power.

Textiles—As of April, 1948, the Chinese textile industry was equipped with more than 4,200,000 spindles of which 80% or 3,300,000 spindles were in operation. Its monthly consumption of cotton was around 600,000 piculs. From April until the end of 1948 a total of 5,400,000 piculs of raw cotton would be needed, this to be derived from the following sources:

(a) 1,750,000 piculs of registered stockpiles of cotton owned by the various cotton mills; (b) 210,000 piculs of foreign cotton purchased by the Cotton Yarn and Cloth Export Commission; (c) 550,000 piculs of foreign cotton ordered by the China Textiles Incorporated and supplied by CNRRA; (d) 400,000 bales or 1,800,000 piculs of American cotton to be procured under the US$80-million Cotton Loan of the United States; (e) 1,200,000 piculs of domestic cotton procured by the Cotton, Cotton Yarn and Cotton Cloth Control Commission.

The above total is 5,510,000 piculs, which would be sufficient to meet the country's needs for 1948. Of the 1948 cotton crops, 3-million piculs were to be purchased and placed in reserve for use in 1949.

At the end of 1947, China had a total of 232 cotton mills with 4,553,056 spindles and 64,003 looms. Forty of these mills with 1,797,932 spindles and 39,547 looms were owned by the government while the remaining 192 with 2,735,124 spindles and 24,456 looms by private interests. Their distribution as of December 31, 1947 is shown in Table 7.

The productive capacity of all cotton mills in China, as of December, 1947, was 1,973,917.78 bales of cotton yarn, 28,089 bales of cotton thread, and 47,625,415.10 bolts of cotton cloth. (There are 400 pounds to a bale and 40 yards to a bolt).

CHINA TEXTILE INDUSTRIES, INC.

Since 1946, the State-operated China Textile Industries, Incorporated has been the largest single owner of cotton mills in China. By the end of 1947 it was in charge of 1,763,480 of the 1,797,932 spindles, and 38,437 of the 39,547 looms owned by the Chinese government. The remainder was owned by local governments.

Although only 1,100,000 of its spindles and 23,000 of its looms were in operation during 1946, the company produced 450,-000 bales of cotton yarn and 9,500,000

Table 7—Cotton Mills in China, December, 1947

Locality	Mills	Spindles	Looms
Shanghai	18	897,328	18,195
British interests	55	1,359,164	9,728
Szechwan	19	172,644	1,532
Shensi	7	93,657	1,655
Yunnan	3	29,176	140
Kiangsu	73	599,076	7,137
Chekiang	9	43,216	299
Hopei	4	96,492	690
Tientsin	7	332,872	8,640
Hupeh	7	160,800	1,950
Shantung	3	61,400	240
Tsingtao	8	324,524	7,262
Shansi	5	63,824	702
Honan	2	25,088	42
Hunan	2	20,000	120
Kiangsi	2	17,000	200
Kwangtung	1	6,000	60
Anhwei	1	20,000	..
Taiwan	1	7,587	81
Northeast	5	223,208	5,330
Total	232	4,553,056	64,003

Source: Ministry of Economic Affairs

bolts of cloth that year. In 1947 its production went up to 740,000 bales of cotton yarn and 16-million bolts of cloth. In the first six months of 1948, 380,000 bales of cotton yarn and 8,600,000 bolts of cloth were manufactured.

Two of the company's most popular products are "Blue Phoenix" cotton yarn and "Dragon Head" cloth. Altogether 14,000 bales of the former and 867,000 bolts of the latter were exported in 1947. During the first six months of 1948, 18,000 bales of yarn and 992,000 bolts of cloth were exported.

As of August, 1948, the company's total assets were valued at US$145,054,-977.96 Upon the issuance of the Gold Yuan on August 19, 1948, 70% or US-$101,538,505.43 worth of the company's assets was pledged as part of the reserve for the new currency. Toward the end of that month preparations were under way to dispose of the earmarked assets through the issuance of shares to be sold on the open market.

The China Textile Industries, Inc. was set up in Shanghai in January, 1946 by the Ministry of Economic Affairs to amalgamate all textile mills taken over from the enemy. Factories thus incorporated totalled 68, of which 36 were located in Shanghai; 9 in Tientsin; 13 in Tsingtao, and 10 in the Northeast. They consisted of 38 cotton spinning mills; 13 printing and dyeing mills; 5 wool weaving mills; 2 ramie mills; 2 silk mills; 2 ribbon works; 2 needle works, and 4 machine shops. Of the 38 cotton spinning mills, 18 were located in Shanghai, 8 in Tsingtao, 7 in Tientsin, and 5 in the northeast at Liaoyang, Yingkow, Chinchow, Antung and Fuchow.

NATIONAL RESOURCES COMMISSION

The National Resources Commission is in charge of China's industrialization program. It operates certain enterprises essential to this program, principally steel and chemical mining, and power industries.

History and Organization

When the Commission was organized in November, 1932, it was called the National Defense Planning Council and was part of the general staff. Its purpose was to survey Chinese resources and all available means of production and to coordinate all such economic measures as might be taken by the government in the event of war.

It acquired its present name in April, 1938, when it was placed under the Ministry of Economic Affairs. In May, 1946, it was given a ministerial status, but in March, 1949, it was restored to its original position. The commission has become the holding and controlling agency of newly-established state enterprises, somewhat in the nature of the Reconstruction Finance Corporation in the United States. In the scope of its expanding wartime activities, the NRC also bore some resemblance to the American War Production Board.

The NRC planned and executed the transportation of 450 industrial and mining units from the coastal regions to the interior of China between 1937 and 1940. Under the most trying conditions and for the most part with only primitive means of transportation, it succeeded in moving 120,000 tons of machinery and materials and 15,000 skilled workers and their families to Free China. Within four more years the number of modern factories in Free China had increased tenfold. The NRC itself administered 86 industrial and mining units by the end of 1944.

The NRC is now composed of the following divisions under a business committee: power, coal, petroleum, ferrous metals, non-ferrous metals, mechanical, electrical, chemical, sugar, cement, paper, and coordination. To facilitate its work and operation, it maintained offices in the Northeastern Provinces, Peiping and Tientsin, Shanghai, Chungking, Taiwan, and New York—six in all.

New York Office

The NRC's New York Office performs various functions. It is empowered to negotiate contracts in behalf of the Chinese Government with American and Canadian firms in matters concerning technical or financial assistance to China. It has working arrangements with many American firms: consulting engineers, construction engineers, and manufacturers of supplies and equipment for various industries.

The NRC's New York office has a training program. Trainees are selected in China for specialized training in various industries. When they are sent to the United States they are placed in positions corresponding to those they are to fill upon the completion of their training. Most of these are engineers and technical men, but there are also managers, accountants and research workers.

Another duty of the NRC's New York office is to process the loan programs from the repayment end and handle the shipping of the tungsten, tin, antimony and mercury pledged in the Sino-American barter agreement. From 1940 to April 30, 1946, it handled 34,590 tons of mineral products from China, valued at US$46,-617,360. The bulk was paid to the Export-Import Bank.

Subsidiaries and Their Production

Up to the end of 1947, the NRC had grown from a small staff consisting of a handful of experts to an organization with 96 production units—subsidiaries of limited companies which operated 291 factories, mills and mines with 32,917 staff members and 190,858 workers. The more important NRC subsidiaries are shown in Table 8 (on pages 396-397).

The enterprises owned and operated by the NRC occupy no small place in the nation's total production picture. In 1947, for an example, the NRC's power output rated more than 60% of the national production while its coal mines shared 32.5% of the country's production.

Prior to the communist occupation of large cities in north and central China 1948-49, the commission, which had been in full control of the domestic and refining of petroleum, supplied 20% of China's oil needs. It owned and operated all iron and steel production units with the exception of the steel mills in Shanghai. The NRC's yearly output of iron and steel at normal times should have averaged 200,000 m. tons, had it not been for the stripping of industrial plants in the Northeastern Provinces by Russian troops plus wanton destruction by the Chinese Communists. The NRC's estimated yield of iron and steel products for 1947 was 110,000 tons or 80% of the national production, which would have met one-third of the country's requirements.

Minerals for export such as tungsten, antimony and tin are mostly produced or purchased by the NRC. The Commission produced approximately 40% of the nation's cement. Its sugar yield during the year 1946-47 (October, 1946 to September, 1947) was about 30% of the national production while that for 1947-48 had been estimated at 300,000 tons or over 60% of the country's total sugar yield.

The NRC also produced a record number of locomotives, motors and transformers and about 20% of China's paper.

By the end of 1947, the aggregate value of all NRC production amounted to CNC-$5,244,100,000,000 (at the value of the Chinese dollar in July, 1947). The Northeastern Provinces rated the highest with CNC$2,034,200-million; north China, next, with CNC$1,289,000-million; and Taiwan, third, with CNC$1,084,700-million. (The production in the northwest was included in the north China figure.) The remainder was distributed as follows: CNC$597,-300-million for central China (including Szechwan) and CNC$238,900-million for south China (including the southwest).

Production Since V-J Day

At the end of the war there were over 100 NRC-operated enterprises in the interior of China. Since most of them had been directly or indirectly connected with the war effort, certain readjustments were necessary to convert them to peace-time production.

In the postwar years, with many units taken over from the enemy in various parts of the country, NRC's production has climbed steadily upward largely in the following main categories: electrical products, coal, petroleum, metals, iron, steel, mechanical products, chemicals, sugar, cement and paper. The largest increases have been made in power, coke and petroleum production. In some commodities such as iron and steel, however, production figures were actually smaller in 1946-1947 than in 1945.

Table 9 (see pages 398-399) shows NRC's principal subsidiary enterprises throughout China and their production for 1946, 1947 and part of 1948 (January-April) as against 1945.

In 35 of the 38 items listed above, production in 1947 registered gains over that in 1946. The drop in the output of alcohol in 1947, for an example, was due to the closing down or sale of all but one of the NRC-operated distilleries in the interior, which the commission had set up during the war. Among the NRC enterprises, whose production in 1947 was 3 to 11 times their 1946 outputs, were sulphuric acid, antimony, cast iron, machine tools, locomotives, freight cars, transformers, telephone sets, copper wire, hydrochloric acid, sulphur black, paper and paper board. Pyrite was a new NRC product.

The NRC's program for 1948 was aimed at increasing production and reviving the national economy in coordination with the nation's military campaign to suppress the communist rebellion. The commission did its utmost to maintain industrial and mining enterprises in the northeast, speeded improvements in north China, exploited resources in central and south China, and expedited the development of enterprises in Taiwan.

TABLE 8—NRC'S PRINCIPAL SUBSIDIARIES—DECEMBER, 1947

Subsidiary	Sub-ordinate Units	Staff Members	Workers
Power:			
Northeast Power Administration (Mukden)	15	2,813	3,932
North Hopei Power Company (Peiping)	4	1,810	3,821
Tsingtao Electricity Works (Tsingtao)	1	321	793
Mingkiang Power Company (Wutungchiao)	..	87	351
Taiwan Power Company (Taipeh, Taiwan)	9	1,828	2,976
Hunan Power Company (Changsha)	3	165	372
Canton Power Company (Canton)	..	302	954
Kunming Lakeside Electricity Works (Kunming)	..	94	354
Coal:			
Fushun Coal Mining Administration (Fushun, Liaoning)	8	2,979	36,301
Fushin Coal Mining Company (Fushin, Jehol)	6	648	16,178
Peipiao Coal Mining Company (Peipiao, Jehol)	5	..	..
Petroleum:			
Chinese Petroleum Corporation (Shanghai)	17	2,059	11,567
Metals:			
Northeast Metals Mining Company (Mukden)	8	187	494
Central China Mining Administration (Nanking)	5	118	1,037
Taiwan Gold & Copper Mining Administration (Keelung, Taiwan)	1	140	2,147
Taiwan Aluminum Corporation (Kaohsiung, Taiwan)	2	129	978
Yunnan Consolidated Tin Corporation (Kunming)	5	221	3,552
Iron & Steel:			
Anshan Iron & Steel Corporation (Anshan, Liaoning)	2	1,043	10,870
Penhsi Coal & Iron Corporation (Penhsihu, Liaoning)	2	604	8,917
North China Iron & Steel Corporation (Shihchingshan, Peiping)	3	543	3,667
Central China Iron & Steel Corporation (Tayeh, Hupeh)	..	109	720
Ta Tu Kou Iron & Steel Mill (Chungking)	1	352	4,233
Mechanical:			
Mukden Locomotive Manufacturing Company (Mukden)	3	353	2,111
Central Machinery Manufacturing Company (Shanghai)	5	521	3,374
Central Shipbuilding Corporation (Shanghai)	..	60	38
Taiwan Mechanical Shipbuilding Company (Keelung, Taiwan)	2	333	1,919
Central Electrical Manufacturing Works (Nanking)	7	756	2,137
Central Radio Manufacturing Company (Shanghai)	4	303	657
Chemical:			
Tientsin Chemical Industrial Company (Tientsin)	3	124	847
Central Chemical Works (Shanghai)	2	111	212
Taiwan Fertilizers Company (Taipeh, Taiwan)	6	262	1,452
Taiwan Alkali Company (Kaohsiung, Taiwan)	5	274	1,253

TABLE 8—*Continued*

Subsidiary	Sub-ordinate Units	Staff Members	Workers
Sugar:			
Taiwan Sugar Corporation (Taipeh, Taiwan)	40	5,364	16,274
Cement:			
North China Cement Company (Peiping)	2	132	617
Taiwan Cement Company (Taipeh, Taiwan)	3	433	2,354
Paper:			
Taiwan Paper Company (Taipeh, Taiwan)	6	624	2,645
GRAND TOTAL	185	26,202	150,104

SOURCE: National Resources Commission

Prior to the communist occupation of the big cities, the NRC operated about 75% of all power plant facilities, produced 66% of coal, 90% of iron and steel, and owned a substantial portion of manufacturing industries in China. It also controlled the production and export of tungsten and antimony.

FUTURE PLANS AND POLICIES

Certain broad lines of future policy are being contemplated by the commission. Among these is its intention gradually to decentralize and loosen its control over certain industrial units considered not essential to China's industrialization plan. Certain basic industries will remain essential for a long time, and these must be undertaken by the government because private interests in China are not as yet in a position to conduct them. As for other industries, they are to be taken over by private interests as soon as they are on a self-supporting basis. For example, stock of the NRC-operated Taiwan Sugar Corporation has been offered for sale to the public. This is in full accord with the general belief that the state ought largely to invest its available capital in those industries which do not attract investment, either because they do not promise immediate returns or, more often, because of their size but which are necessary to an integrated economy.

Another plan is to diversify NRC investments, allowing at the same time a wider spread and a lesser degree of control. According to this plan the NRC would own shares in various industries in varying amounts, depending on where the capital would be most needed.

That joint operation with private industry is entirely workable has already been amply demonstrated. Besides its own enterprises, the NRC shares management in several partly-owned concerns, some of which have been in operation for a number of years. The NRC's participation in management is limited to its number of shares.

The NRC believes that the responsibility to encourage the growth of private business and manufacture in China is an important phase of its general plan for economic reconstruction, and that one of its functions is to facilitate "division of labor" between private and state enterprises.

INDUSTRIAL RESEARCH

China has a long way to go in industrial research. Up to the end of 1948, such research as had been carried on had a fourfold purpose: (a) To exploit the raw materials at her disposal for industrial production with an end toward self-sufficiency; (b) To develop better methods and processes of industrial production through the advancement of science and engineering; (c) To conduct studies which would help to standardize her industrial products; and (d) To encourage and promote industrial extension work in the rural as well as urban areas.

In August, 1948, there were some 25 industrial research institutes in China, of which four were operated by the Central Government, 10 by provincial governments and about 20 by private enterprise. The leading institute was the National Industrial Research Bureau under the then Ministry of Industry and Commerce

TABLE 9—PRODUCTION STATISTICS OF NRC'S PRINCIPAL SUBSIDIARIES 1945 to 1948 (Jan.-June)

Product	1945	1946	1947	1948 (Jan.-June)
Power: (1,000 kwh.)	70,136	910,220	2,005,117	662,193
Coal: (1,000 m. tons)	625	4,486	5,622	1,141
Coke (1,000 m. tons)	44	54	108	30
Petroleum:				
Gasoline (1,000 gal.)	4,305	5,058	8,773	4,664
Kerosene (1,000 gal.)	1,654	2,304	4,013	2,050
Diesel (1,000 m. tons)	887	1,253	3,178	1,323
Fuel Oil (1,000 gal.)	..	..	11,816	5,494
Natural Gas (1,000 cu. ft.)	237	61,098	54,603	15,802
Metals:				
Tungsten Ore Concentrates (m.ton)	..	2,638	6,402	3,368
Antimony Ore (m. ton)	..	426	1,780	920
Refined Tin (m. ton)	5,386	1,202	1,470	405
Lead Ingots (m. ton)	..	..	..	986
Gold (*Shih Liang**)	..	..	7,000	4,865
Refined Copper (m. ton)	623	947	1,643	237
Pyrite (m. ton)	..	..	64,876	15,888
Iron and Steel:				
Iron Ore (m. ton)	42,594	15,114	18,894	32,123
Cast Iron (m. ton)	22,556	1,326	5,732	12,292
Steel Ingots (m. ton)	10,206	7,536	18,507	4,590
Mechanical Products:				
Prime Mover (hp.)	1,618	2,955	2,369	899
Machine Tools (unit)	161	37	96	58
Bicycles (unit)	..	3,922	9,260	3,544
Manufacturing Machines (unit)	101	253	492	36
Locomotives (unit)	..	4	23	7
Freight Cars (unit)	..	75	259	69
Vessels Repaired (m. ton)	..	92,588	105,415	75,719
Electrical Products:				
Motors (hp.)	5,917	2,933	6,163	2,383
Transformers (kva.)	5,563	5,021	22,516	8,284
Telephone Sets (unit)	3,379	171	879	242
Switchboard Lines (unit)	5,155	..	420	160
Communications Equipment (unit)	1,375	224	271	3,693
Copper and Steel Wires (m. ton)	325	826	1,756	231
Insulated Wires (coil)	44,043	57,478	83,265	48,656
Lamp-bulbs (1,000)	838	1,480	1,939	626
Dry Cells (dozen)	149,045	110,170	164,489	56,066
Storage Batteries (unit)	2,894	1,026	3,347	982
Porcelain Insulators (1,000)	2,236	1,813	2,017	135
Chemical Products:				
Sulphuric Acid (m. ton)	55	219	2,422	240
Hydrochloric Acid (m. ton)	1	769	3,759	992
Caustic Soda (m. ton)	158	3,442	3,859	1,523
Calcium Cyanamide (m. ton)	..	3,201	8,002	3,102
Superphosphate (m. ton)	..	1,633	9,206	8,041
Calcium Carbide (m. ton)	..	3,723	5,344	1,441
Bleaching Powder and Liquid Chlorine (m. ton)	..	1,383	2,083	1,038
Sulphur Black (m. ton)	..	84	275	72
Glass (box)	..	175,044	241,886	128,838
Alcohols (1,000 gal.)	4,013	3,392	1,784	1,809
Machine Belts (ply)	..	1,668	17,639	483
Sugar: (m. ton)	..	86,073	41,598	252,885
Cement: (m. ton)	2,137	83,249	243,477	81,869
Paper and Cardboard: (m. ton)	..	5,309	15,187	5,124

* One *Shih Liang*=31.25 grams

TABLE 9—*Continued*

Source: National Resources Commission

which had 26 laboratories and seven model experimental factories.

The NIRB was established in 1931, as a part of the Ministry of Economic Affairs. It had three branches: Chungking Industrial Research Bureau, Lanchow Industrial Research Bureau, and Peiping Industrial Research Bureau. Of the 10 industrial research institutes sponsored by the local governments two were in Taiwan and one was in Shanghai. The rest were in the provinces of Chekiang, Kiangsi, Kwangsi, Hopei, Shansi, Shensi, and Kwangtung.

THE FOUR GOVERNMENT BUREAUS

The activities of all four Central Government-operated industrial research bureaus were well coordinated. Each had set up a number of laboratories and pilot plants for research purposes.

The National Bureau—It had 26 laboratories devoted to the studies of technical analysis, industrial fermentation, fine chemicals, ceramics, oils and fats, plastics, leather tanning, dyestuff, food industry, chemical cellulose, motor fuel, textile, material testing, machinery designing, heat power, high tension electrical power, electrical engineering, sugar, heavy chemicals, forest products, paper-making, wood-using industries, power testing electronics, precision machinery testing, and industrial economic research.

The Chungking Bureau—It had 15 laboratories devoted to the studies of technical analysis, material testing, cellulose, leather tanning, fuel, fats and oils, heavy chemicals, cane sugar, herb drugs, forest products, machinery designing, alloy, refractory material, food and beverage, and plastics.

The Lanchow Bureau—It had 9 laboratories devoted to the studies of technical analysis, industrial fermentation, material testing, beet sugar, wool and fibers, crude animal products, fats and oils, electrochemistry, and heavy chemicals.

The Peiping Bureau—It had 9 laboratories devoted to the studies of technical analysis, fat and oil, material testing, heavy chemicals, cellulose, food fermentation, solid fuel, electro-chemistry, and machinery designing.

Generally speaking, the National Bureau was empowered to conduct research projects in almost every kind and branch of industry in China. The Chungking bureau confined its activities to the industries of southwestern China such as refractory materials, herb drugs, fruits, forest products, ceramics, pharmaceuticals, canning and wood-using industry. The Lanchow bureau specialized in the industries of the northwest such as natural alkali, wool and furs, beet sugar, wool-weaving, and fur-dressing, while the Peiping bureau concentrated its studies on such industries in north China as coal, iron, soybean, strategic minerals, salt, alkali and art work.

IMPORTANT RESEARCH WORK

The following are the more important items of research work conducted during the postwar years by the National Bureau under the Ministry of Economic Affairs:

Industrial Fermentation Research—The National Bureau's Fermentation Laboratory has played an important role by making a detailed study of various kinds of micro-organisms, such as *Aspergille, Mucor, Rhizopus, Penicillium* and *Citromyces* and Yeasts. Up to August, 1948, over 500 specimens of various micro-organisms had been collected, separated and identified by the laboratory.

Apart from the examination of micro-organisms, it had worked out effective methods to improve the manufacture of sauces, alcohol, wine, vinegar, lactic acid, acetone and butyl alcohol.

Cellulose—The National Bureau's Cellulose Laboratory included in its scope of research industries using cellulose as raw materials, and rayon. Its outstanding achievements have been (1) the manufacture of nitrocellulose dope and lacquer from domestic cotton, (2) the manufacture of cellulose acetate (one of the most important materials for making dope for aircraft), (3) the manufacture of the viscose of sulphonal cellulose (the principal raw material for making rayon), and (4) the designing of machinery for the manufacture of rayon.

Textiles—The National Bureau's Textile Laboratory has been seeking to improve the rural methods of weaving and spinning. The Indian Ghoseh spinning jenny has been introduced with some modifications as the most suitable pattern for China's rural areas.

Oils and Fats—The National Bureau has through its oils and fats laboratory achieved the following results during the immediate postwar period:

(1) Plastics from tung oil—Tung oil mixed with gallic acid to form a paste is heated in an oven with the addition of formaldehyde. The product is pulverized, combined with a filler and thermopressed into form. A bakelite substitute of high dielectric strength is obtained. (2) Synthetic lubricants from vegetable oils—Pyrolysis of vegetable oils with caustic soda, potash or quicklime produces unsaturated hydrocarbons which, when polymerized by the addition of anhydrous $AlCl_3$ and vacuum distilled, lubricants of good quality are obtained.

Paper-Making—The National Bureau's paper-making laboratory had conducted the following research:

1. Investigation of the chemical composition of paper-making raw materials—This includes the determination of moisture, ash, soluable extracts, pectin, acetic acid and protein, pentosan, cellulose, lignin, galactose and manose. The raw materials studied consist of (a) spruce, fir, pine, cedar and poplar of the wood group; (b) various species of bamboo; (c) reed, wheat stalk, cotton stalk, corn stalk, and the straw group, and (d) barks from various kinds of trees.
2. Microchemical analysis of paper-making fibers.
3. Utilization of bamboo in paper-making.
4. Studies on the methods of paper-making.
5. Study of hand-made newsprint.
6. Studies on the base material for mimeograph paper—Investigation has shown that by the use of *Wikstraemia Sekokianum* as the chief raw material, with the addition of a small amount of straw and by careful heating, the tensile strength of the base material is greatly increased.

Research on Mechanical Designing Testing—The National Bureau's mechanical designing and testing laboratory supplies the mechanical industries with all sorts of designs and blueprints. It has designed the universal testing machine, oil and liquid fuel, textile, rock and paper testing equipment, pressure gauges, various types of boilers, alcohol distillation tower, machinery attachments and others.

Electrical Engineering—The National Bureau's electrical engineering laboratory conducted experiments on motors, generators, lamps and insulating and conducting materials and tackled such special problems as were referred to it for solutions. It has also studied the manufacture of jewels for meter bearings with Chinese quartz and phosphorus bronze for meter coils, and has manufactured a number of electrical gadgets including the voltmeter, ammeter, milli-ammeter, milli-voltmeter and watt-hour-meter.

Forest Products—The National Bureau through its forest products laboratory has conducted surveys of lumber production in China and made studies on the properties and uses of Chinese timbers. Postwar endeavors have been confined largely to the surveying of potential forest production in southwest China and the making of a series of testing. Relevant data and abstracts of reports prepared and published by the laboratory up to August, 1948, included:

1. Table of estimated Chinese forest resources;
2. Map showing China's main forest regions and lumber markets;
3. Survey of forest resources for railroad ties in southwest China;
4. Chinese logging and transportation;
5. Chinese lumber-trade;
6. A preliminary study of Chinese commercial timbers:
7. Systematic analysis of the woods of the *hamamelidaceaes;*
8. A preliminary study of the basic specific gravity and calculated mechanical properties of some important Chinese timbers;
9. Ten years' progress of forest production research projects in China.

Pure Chemicals—The pure chemicals laboratory of the National Bureau has been engaged in the following lines of research:

1. Purification of sulphuric acid for storage battery use—A simple method has been found to eliminate the impurities from raw sulphuric acid.
2. Recovery of by-products from the native charcoal kiln—Generally practiced in Szechwan, charcoal is obtained by the slow burning of hard wood in a so-called "horse-shoe" kiln without recovery of the by-products. A simple condensing apparatus, consisting of bamboo pipes, a wooden bucket and a clay-jar is attached to the chimney of the kiln and acetic acid and acetone are obtained as by-products. The method is simple and is being widely adopted.
3. Preparation of lead, antimony, bismuth, molybdenum and their derivatives.
4. Extraction of ammonium salts and aqua ammonia from animal waste such as fur and bristles.
5. Extraction of saponin and curcumin—In China the seeds of the soap-plant and curcuma are produced in abundance. Saponin extracted by lead acetate and alcohol is a foaming agent and curcumin is used as a chemical reagent for test baric salt.
6. Conversion of camphor to borneol—By using aluminum and iso-propyl alcohol as reducing agents, about 80% of camphor is converted to borneol.
7. Extraction of caffeine from Chinese tea.
8. Synthesis of saccharin.
9. Preparation of pinene and its derivatives.

Ceramics—The National Bureau's ceramics laboratory has been conducting research work on various kinds of ceramic materials in China. Based on the results of research on refractory materials in Szechwan, the laboratory has been able to produce hundreds of tons of high-temperature firebricks for iron and steel plants. It also produces chemical porcelain for laboratory and factory use and pyrometric cones for temperature measurement. Following were the major research projects of the laboratory:

1. Analysis of pottery-clay—About 37 kinds of several pottery clays and 14 kinds of feldspar have been analyzed for their chemical composition and physical properties.
2. Biscuit and glaze experiments.
3. Research on the manufacture of insulating porcelain.
4. Color glaze experiment.
5. Manufacture of chemical porcelain for industrial use.

Private Research Institute

The Huang-Hai (Golden Sea) Research Institute of Chemical Industry is the first private institution in China engaged in scientific research. By 1948 it still ranked highest among the country's largest industrial research institutes financed chiefly by private sources.

It was founded in 1922, at a time when Chinese intellectuals were beginning to take a more active and lively interest in modern science. It was located at Tangku, the salt producing center in north China. When that region was invaded by Japanese troops late in 1937 the institute moved to Wutungchiao in southern Szechwan where it has been carrying on ever since.

The institute was established to pursue studies and investigations that would lead to the establishment of new chemical industries; and to study and improve, whenever possible, the old Chinese industries. Its work has been directed principally toward fermentation, fertilizers, metallurgy and salts.

Fermentation Research—Fermentation is a Chinese domestic industry of ancient origin. Today the making of alcoholic drinks, malt sugar, soybean sauce, and steamed bread is widely practised in Chinese homes. Other foodstuffs, prepared by fermentation processes, are no less important as essential articles in the Chinese diet.

The institute first undertook to study the various traditional fermentation processes. Men were sent to scattered parts of the country to make observations and collect samples. Then, to improve and standardize these processes, new methods were introduced for lower cost and uniform product. Among them, the production of lactic, citric and gallic acids by fermentation was studied. The findings of these studies have been published from time to time.

Pure strains of fungi were isolated and collected. Many strains for producing gallic and citric acids, soybean sauce and alcohol have been studied and tested. Several new forms have been found and their

characteristics described in various papers. As a result China has become a center for the study of fermentation industries.

Fertilizer Research—China being an agricultural country, the supply of fertilizers is of major importance. While there is a universal shortage of nitrogen fertilizers, the deficiency of phosphorus in the southern provinces has been a serious problem. To find an adequate supply of raw materials for the manufacture of potassium and phosphorus fertilizers has been another major research activity of the Institute. From a systematic study of the potassium and iodine content of seaweeds along the China seacoast, undertaken since 1928, it has been found that three of the common algae — namely, *Ecklomia kurome, Sargarssum horneric* and *Undaria pidafinila,* can be of industrial use.

The study of phosphorus fertilizers has centered around the methods of production of phosphoric acid for concentrated fertilizers. There are two important phosphate deposits in China, one in Kiangsu and the other in Yunnan. The composition of these deposits has been determined, and a suitable procedure for their treatment and extraction worked out. Experiments on a larger scale are being planned.

Metallurgical Research—Some work on the metallurgy of aluminum has been started. So far very little important bauxite ore has been found in China. There are, however, three alumite deposits (one in Chekiang and two in Anhwei) and two shale deposits containing a high percentage of alumina. The problem is to separate the alumina in a state pure enough for electrolysis. The presence of silica complicates the problem. This, however, has been thoroughly investigated and a procedure worked out for its treatment.

A fairly large deposit of bismuth ore has been found in Kiangsi. This formerly was worked into concentrates and exported. In 1940 the institute initiated refining operation. A workable process was devised a year later to produce bismuth metal of 98% purity and a yield of about 95% of metal from the original ore.

Salt Research—Since the institute originated in a salt producing area, research on salt has been one of its chief lines of work. The soda beds in Mongolia and salt beds in Shansi have been items of experimentation. The work was resumed and expounded after the institute was moved to Wutungchiao, another salt producing center in China. The "gradation work" used in Germany for the concentration of brines was introduced in Szechwan with good results. Complete analyses of Szechwan subterranean brines have shown them to be rich in potassium, barium, strontium, lithium, boron and bromine. Experimental plants for the extraction of the salts of these elements were started. Their products proved helpful during the long blockade in the war years.

As of November, 1948, the institute maintained an office at Nanking as a liaison with other research and technological organizations. It was considering reorganization of its research work. Two main divisions were being formed: *Salt and Soda* and *Human Biology.* The Division of Salt and Soda, encompassing all such in the inorganic field, was to be directed by Dr. T. P. Hou, well-known chemical engineer. The Division of Human Biology is aimed primarily at the advancement of knowledge about man himself to enable him to live a happier, healthier and longer life.

CHAPTER 15

MINERAL RESOURCES

In common with other production enterprises, China's mining industry was disrupted during the war. Most of the mining enterprises in areas occupied by the Japanese were either seriously damaged by hostilities or put under Japanese control. As a result China had to draw on mineral resources in the interior provinces. Geologists of the National Resources Commission and the Ministry of Economic Affairs made intensive studies in the exploration and utilization of previously known but unworked mineral deposits in Szechwan, Yunnan, Kweichow, Hunan, Kwangsi, Kansu and Sikang to meet the nation's wartime needs. New mining enterprises were formed for the prospecting and refining of minerals. The remarkable progress made in this field bespeaks the concentrated efforts of the government mining authorities. Since V-J Day, the mining enterprises lost to Japan have been recovered except those in the northeast which were first stripped by Soviet troops and later seized by the communists. This has dealt a serious blow to China's postwar program of industrial development.

MINING AREAS

Mining areas are divided into two general groups of national reserves and private mining claims. In 1949 China had 253 national reserves areas distributed in 21 provinces. These national reserves are distributed as follows: COAL—58 areas (Hunan 16, Yunnan 9, Kweichow 7, Honan 6, Szechwan 6, Hopei 4, Kansu 4, Kiangsi 3, Shantung 1, Sikang 1, Jehol 1); IRON — 60 areas (Szechwan 18, Yunnan 10, Anhwei 7, Sikang 4, Hupeh 3, Kansu 3, Kiangsu 2, Kiangsi 2, Hunan 2, Fukien 2, Kweichow 2, Chekiang 1, Kwangtung 1, Kwangsi 1, Jehol 1, Ningsia 1); TUNGSTEN—85 areas (Kwangtung 43, Kiangsi 24, Hunan 17, Yunnan 1); TUNGSTEN - AND - TIN — 1 area (Hunan); TIN — 1 area (Hunan); ANTIMONY — 2 areas (Anhwei and Hunan); COPPER—9 areas (Yunnan 5, Hupeh 2, Kiangsi 1, Szechwan 1); ALUMINUM — 15 areas (Yunnan 12, Jehol 3); ZINC — 1 area (Hopei); MANGANESE — 1 area (Kweichow); MERCURY — 2 areas (Hunan, Kweichow); PHOSPHORUS—2 areas (Yunnan); SULPHUR—2 areas (Chekiang, Kwangtung); and MINERAL OIL—14 areas (Kansu 6, Szechwan 4, Shensi 3, Sinkiang 1).

Private mining claims in 1949 totalled 6,100 areas covering an aggregate area of 44,473,949 ares (an are is equivalent to 0.0247 acre). Coal mine areas, numbering 3,874, represent 63.51% of all the private claims. Distribution, according to kind, of the private mining areas is listed in Table 1 on page 404.

RESERVES AND PRODUCTION

Coal

In 1945 the National Geological Survey of China published a table of estimated reserves of coal deposits of China. Through the efforts of survey parties sent out by the National Geological Survey of China, the National Resources Commission and the Mining Department of the Ministry of Economic Affairs, new coal reserves were found in various parts of the country. During the war, the Japanese had also engaged in surveying and checking up on the coal deposits in north China. Thus the whole picture of China's coal reserves has been considerably modified. Table 4 on page 407 shows the most recent estimates.

Approximately two-thirds of China's coal production is mined by private interests and only one-third is produced by government-owned mines.

Iron

China has large known deposits of iron ore, but the estimates vary as surveying and exploitation in the field are yet unfinished. The 1947 estimated reserve made by the National Geological Survey of China is 2,554,896,000 m. tons,

Table 1—Mining Areas (Private)

	Number	Area (in are)*
Coal	3,874	31,163,676.36
Iron	245	393,031.79
Tungsten	141	860,658.40
Antimony	278	511,204.56
Tin	327	1,891,120.08
Mercury	8	169,763.60
Copper	7	10,564.93
Zinc	10	33,325.61
Manganese	75	438,383.19
Molybdenum	11	34,778.45
Lead	83	507,875.43
Gold	459	5,746,069.23
Silver	9	23,445.52
Cobalt	2	315.00
Bismuth	3	4,579.49
Sulphur	73	141,484.20
Phosphorus	5	92,458.50
Arsenic	29	68,402.33
Rock Crystal	7	148,659.06
Potassium	2	1,642.04
Asbestos	19	86,493.09
Aluminum	18	521,255.81
Mica	11	43,776.81
Gypsum	56	365,518.24
Alum	3	7,481.97
Natural Soda	9	17,090.95
Barite	44	154,783.58
Nitrate	3	623.00
Pluorite	85	76,386.19
Graphite	24	141,034.55
Fire Clay	61	367,428.25
Talc	17	92,705.21
Magnesia	14	197,358.14
Marble	9	19,697.14
Silica	1	99.33
Porcelain Clay	74	105,357.90
Feldspar	2	10,743.01
Rock Salt	1	23,479.96
Calcite	1	198.10
TOTAL	6,100	44,473,949.00

SOURCE: Ministry of Economic Affairs

*An are is equivalent to 0.15 *shih mow* or 0.0247 acre.

while that made by the Bureau of Mineral Exploration of the National Resources Commission amounts to 5,065,838,000 m. tons.

The centers of China's iron and steel industries are Anshan in the northeast, Shihchingshan in north China, and Tayeh in Hupeh. After V-J Day, as iron and steel plants in the northeast were almost completely stripped, and the facilities at Shihchingshan and Tayeh were all in need of repairs, normal production could not be immediately regained. (See Table 6-9.)

Petroleum

Oil reserves in China remain largely an unknown factor pending completion of a survey which has been under way for some time in Kansu, Shensi, Sinkiang, Szechwan, Taiwan and in the northeast. Findings have also been reported from Chinghai, Chekiang, Kweichow and Sikang where more intensified

Table 2—Prewar Mineral Production of China (tons)
(Excluding the Northeastern Provinces)

Minerals	1932	1933	1934	1935	1936
Coal	18,490,971	18,585,271	20,493,342	14,938,000	15,034,000
Iron ore (Fe 35–60%)	1,207,181	1,136,405	1,359,582	1,774,468	1,749,802*
Pig iron	154,283	173,274	155,640	. .	. .
Steel	25,000	25,000	50,000	. .	. .
Mineral oil (barrels)	2,251	3,187	2,613	3,000	2,000
Manganese ore (Mn 45%)	21,501	9,500	1,929	. .	. .
Tungsten ore (WO_3 60%)	2,210	5,698	6,305	7,000	7,000
Molybdenum ore (Mo 45%)	0.7	1.4	1.5	. .	. .
Gold (ounces)	99,450	94,608	86,926	. .	. .
Silver (ounces)	150,945	200,585	121,504	. .	. .
Copper ore	440	483	471	. .	. .
Zinc ore (Zn 36–42%)	10,584	10,565	13,299	10,000	10,000
Zinc metal	57	147	136	. .	. .
Tin	7,253	8,358	8,004	9,000	11,000
Mercury	0.5	0.4	0.54	. .	. .
Antimony—					
Regulus	11,410	11,112	13,615	14,000	13,000
Crude	1,287	1,727	1,807	. .	. .
Oxide	1,408	1,327	914	. .	. .
Bismuth ore (Bi 40%)	20	45	73	. .	. .
Arsenic ore (As 20–60%)	1,427	1,159	1,206	1,000	1,000
Pyrite	45,000	43,000	40,000	. .	. .
Kaolin fireclay	791,000	796,650	805,000	1,000,000	1,000,000
Limestone	4,220,000	4,220,000	4,220,000	5,000,000	5,000,000
Rock salt	2,520,000	2,450,000	2,500,000	. .	. .
Gypsum	64,508	64,020	67,720	. .	. .
Alum	11,070	14,870	15,550	15,000	16,000
Saltpeter	5,000	4,950	5,000	5,000	5,000
Soda, natural	16,253	16,314	16,445	. .	. .
Sulphur	3,918	3,781	3,464	. .	. .
Asbestos	250	236	220	. .	. .
Fluorspar	3,510	4,800	5,050	7,000	8,000
Talc	1,680	3,000	3,000	. .	. .
Feldspar	25,077	21,589	22,780	. .	. .
Barite	505	3,092	9,500	. .	. .
Quartz sand	100,000	100,000	100,000	. .	. .

* Anhwei and Hupeh production plus those produced from native mines.

SOURCE: National Geological Survey of China

studies would be necessary to determine the economic value of the various reserves. The known oil reserves in China have been estimated at 778,855,000 m. tons, including 520-million tons of oil shale. (See Table 10.)

The Shensi reserve can be divided into the Yenchang, Yungping and Yenan groups. The Yenchang wells, first dug in 1907, were still producing oil, at last report, to supply local needs. The production, however, was economically insignificant.

The Kansu oil fields were geologically surveyed in 1934-37. Prospecting work was started by the National Resources Commission in 1938 and drilling work began in 1939. It is now known that the vein extends from Yumen to Yungteng on the northern foot of the Chilienshan range and is capable of large-scale production.

The Kansu Petroleum Production and Refining Administration has been in charge of developing the Kansu oil fields. The administration has sunk 24 wells of which 12 have turned out to be flowing producers. It has built two refineries, one of which is of the shell-still type. The second has pipestills of up-to-date design.

In 1939, refineries under the Kansu Petroleum Production and Refining Administration produced only 100 barrels each of gasoline and kerosene and 180 barrels of Diesel oil. Much progress was made in five years. Production figures for 1944 were 96,380 barrels of gasoline, 51,390 barrels of kerosene and 3,700 barrels of Diesel oil. In 1947, the Kansu refineries, together with the new refinery in Taiwan province, produced 428,000 barrels of gasoline, 357,000 barrels of kerosene and 714,000 barrels of Diesel oil.

Oil fields are found both north and south of the Tienshan range in Sinkiang. The northern zone extends from Tihua to Tacheng. The southern zone extends from Kuche to Kashgar. The Tienshan range is one of the most promising oil fields in China. A modern plant produced gasoline on the northern foot of Tienshan before the summer of 1943. It suspended production early in 1944.

In June, 1946, the National Resources Commission formed the Chinese Petroleum Corporation. The Kansu Petroleum Administration, Szechwan Petroleum Prospecting Administration, and all the petroleum projects taken over from the Japanese in Taiwan and the Northeastern Provinces were brought under the unified control of the corporation.

Table 3—Principal Mineral Production in China

Minerals	Unit	1944	1945	1946	1947
Coal	m. ts.*	5,502,000	5,238,000	18,158,000	19,487,400
Pig iron	m. ts.	40,134	48,495	31,000	35,733
Steel	m. ts.	13,361	18,234	15,700	63,000
Gasoline	1000 gals.	4,048	4,305	5,058	8,773
Kerosene	gals.	2,160,647	1,654,697	2,325,000	10,818,000
Diesel oil	gals.	155,374	216,322	326,000	967,662
Natural gas	cu. ft.	272,502	237,316	35,361,000	54,603,000
Gold	taels	100,000	100,000	150,000	107,030
Tungsten ore	m. ts.	3,225	..	2,260	6,042
Antimony	m. ts.	204	..	426	1,799
Tin	m. ts.	5,102	2,704	1,963	3,970
Mercury	m. ts.	121	63	31	10
Copper	m. ts.	898	623	947	1,643
Lead (refined)	m. ts.	646	567	400	141
Zinc (refined)	m. ts.	331	328	100	125
Niter	m. ts.	1,733	1,500	1,000	1,000
Sulphur	m. ts.	2,265	2,000	1,500	7,397
Manganese ore	m. ts.	..	..	..	20,000
Gypsum	m. ts.	..	..	..	50,000

*m.ts.—metric tons

Source: Ministry of Economic Affairs

Oil shale is found in abundance in Liaoning, Shensi, Kwangtung and Kansu.

The known oil reserve in China is estimated in Table 10.

Tungsten

Most of China's known tungsten reserve is found in Kiangsi. Out of the known national total of 5,342,800 m. tons, southern Kiangsi accounts for 4,-939,640 m. tons. The Bureau of Mining Exploration of the National Resources Commission reported that in addition to Kiangsi, Kwangtung has 328,100 m. tons of tungsten reserve; Hunan, 51,100; Hopei, 15,400; and Sinkiang, 8,600. No estimates are available for tungsten reserves of Yunnan and Kwangsi.

Manganese

Manganese ore is found mainly in Hunan, Kiangsi, Kwangsi, Kwangtung, Fukien and Kansu. Findings have also been reported in Yunnan, Hupeh, Kweichow, Chekiang, Hopei and Liaoning. The present known manganese ore reserves are shown in Table 11.

No reliable figures are available for the production of manganese ore in China in recent years.

Gold and Silver

Gold mines in China are widely distributed. The leading production centers

Table 4—Coal Reserves (million metric tons)

Province	1945*	1947**
Liaoning	1,836	3,110
Antung	..	785
Kirin	1,143	1,594
Sungkiang	..	440
Hokiang	..	3,326
Heilungkiang	1,017	4
Hsingan	..	1,126
Liaopei	..	249
Nunkiang	..	16
Jehol	614	1,763
Hopei	3,065	4,366
Shantung	1,639	2,126
Honan	7,764	8,034
Shansi	127,127	295,600
Kiangsu	217	217
Anhwei	360	760
Chekiang	100	100
Hunan	1,293	1,203
Kiangsi	700	700
Hupeh	354	354
Fukien	153	153
Kwangtung	333	333
Szechwan	3,833	3,833
Kweichow	2,518	2,518
Kwangsi	1,157	1,157
Yunnan	2,310	2,310
Sikang	531	531
Chahar	504	504
Suiyuan	476	476
Ningsia	457	457
Shensi	71,950	71,950
Kansu	1,056	1,056
Chinghai	824	824
Sinkiang	31,980	31,980
Taiwan	..	444
Total	265,311	44,489

* Published by the National Geological Survey of China
** Compilation of the National Resources Commission.

are in the Northeastern Provinces, Sinkiang, Hopei, Kansu, Chinghai, Yunnan, Sikang and Szechwan. The mines are largely exploited by native miners with crude tools and primitive methods. Very few of the mines are worked with modern machinery. The Gold Mining Administration of the Ministry of Economic Affairs, besides prospecting for gold in various provinces, ran four gold mining districts in Yunnan, Kiangsi, Kansu and in the Szechwan-Sikang border area. Because of the high cost of production and the low official price for gold, miners could not make a profit panning gold in spite of lifting of the ban on free panning and marketing of gold in China as ordered by the National Government in 1943. The Gold Mining Administration was abolished in 1944. Two "caretaker" offices were established by the National Resources Commission to look after the Sikang and Hunan gold mining districts. Operations in most of the other gold mines have been suspended. A number of private gold mines have also ceased to operate. Only small-scale panning still exists. (See Table 12.)

A small amount of silver is produced in China as a by-product of lead-smelting. The country produced 200,000 ounces annually before the war. Silver production figures for recent years are not available.

Copper

Copper deposits are found in most of the Chinese provinces, with the main reserves in Yunnan, Sikang, Kweichow, Hunan, Fukien and Szechwan. Findings have also been reported in Hupeh, Shansi, Honan, Sinkiang, Taiwan and Liaoning. Recent studies and surveys placed the revised estimated reserve of pure copper in China as shown in Table 13.

Table 5—Coal Production in China (metric tons)

Province	1945	1946	1947
Szechwan	2,300,000	1,800,000	1,748,400
Yunnan	250,000	180,000	200,000
Kweichow	192,000	300,000	199,200
Kwangsi	10,000	60,000	132,000
Kwangtung	100,000	40,000	60,000
Hunan	150,000	500,000	699,600
Sikang	30,000	30,000	30,000
Shensi	600,000	650,000	540,000
Kiangsi	100,000	140,000	219,600
Kansu	200,000	286,000	240,000
Hupeh	50,000	150,000	308,400
Honan	50,000	1,000,000	720,000
Fukien	30,000	30,000	30,000
Anhwei	100,000	700,000	871,200
Chekiang	5,000	10,000	99,600
Ningsia	100,000	150,000	159,600
Chinghai	50,000	50,000	50,400
Sinkiang	200,000	200,000	176,400
Hopei	680,000	4,650,000	5,540,000
Shansi	151,000	960,000	600,000
Shantung	..	537,000	300,000
Kiangsu	30,000	450,000	624,000
Chahar	..	30,000	180,000
Suiyuan	..	73,000	80,400
Liaoning	..	1,800,000	2,160,000
Liaopei	..	882,000	600,000
Jehol	..	1,500,000	1,599,600
Kirin	..	..	219,000
Taiwan	..	1,000,000	1,100,000
Total	5,378,000	18,158,000	19,487,400

Source: Ministry of Economic Affairs

Production centers of copper are Yunnan, Szechwan, Taiwan and Sikang. Several modern copper refineries are in operation, some of them using the electrolytic process to treat crude metal from Yunnan, Szechwan and Sikang, and refine it to a product of 99.95% purity. The electrolytic copper production in 1945 in China amounted to 725 m. tons.

Lead and Zinc

In China, lead and zince deposits are usually found together. The chief lead and zinc producing centers are Hunan, Yunnan, Sikang and Szechwan. Kwangsi and Kweichow also produce lead and zinc in smaller amounts. Several modern refineries treat lead and zinc ores in Szechwan, Yunnan, Hunan and Sikang. The electrolytic refineries in Yunnan and Szechwan can refine zinc to a purity of 99.97% for military and electrical uses.

Antung and Liaoning provinces together have a lead reserve of 14,200,000 m. tons and zinc reserve of 10,900,000 m. tons. Kirin has three million m. tons each of lead and zinc reserves. The reserves of Yunnan, Hunan and Sikang are not estimated.

Tin

The chief tin producing center in China is the Kochiu district in southern Yunnan where cassiterite is obtained from super-

Table 6—Estimated Iron Reserves (metric tons)

Province	NGSC Estimate Tonnage[1]	NRC Estimate Tonnage[2]
Heilungkiang	500,000	500,000
Kirin	15,700,000	15,700,000
Liaoning	1,390,050,000	3,601,144,000
Jehol	11,340,000	15,000,000
Chahar	111,645,000	526,000,000
Suiyuan	5,700,000	117,000,000
Ningsia	7,579,000	7,579,000
Sinkiang	34,011,000	34,011,000
Kansu	2,496,000	2,496,000
Shensi	10,847,000	10,847,000
Hopei	42,170,000	42,179,000
Shansi	22,240,000	22,240,000
Shantung	15,340,000	15,340,000
Honan	17,897,000	17,897,000
Chinghai	50,000,000	..
Sikang	39,909,000	39,909,000
Szechwan	22,023,000	22,023,000
Hupeh	193,174,000	143,174,000
Anhwei	19,204,000	20,000,000
Kiangsu	5,700,000	5,000,000
Chekiang	3,224,000	3,224,000
Fukien	92,562,000	92,560,000
Kiangsi	15,466,000	15,466,000
Hunan	31,753,000	21,750,000
Kweichow	117,600,000	20,000,000
Yunnan	12,156,000	12,156,000
Kwangsi	2,067,000	2,067,000
Kwangtung*	257,155,000	128,000,000
Taiwan**	5,388,000	..
Antung	..	112,576,000
Total	2,554,896,000	5,065,838,000

Notes: * Including the reserve in Hainan Island.
** According to the *Statistical Abstracts of Taiwan Province*, 1946.
[1] Compilation of the National Geological Survey of China.
[2] Compilation of the Bureau of Mineral Exploration of the National Resources Commission.

Table 7—Prewar, Wartime, and Postwar Iron Production (metric tons)

Province	1936	1941	1946
Chekiang	450	..	..
Anhwei	484,800	..	500
Kiangsi	1,200	..	..
Hupeh	661,180	1,300	7,500
Hunan	15,800	2,200	16,750
Szechwan	50,000	15,800	19,000
Sikang	9,000	127,027	151,239
Shansi	202,000	17,000	11,900
Shantung	150,000	82,000	24,380
Honan	25,000	..	..
Shensi	1,800	25,000	2,330
Kansu	1,500	1,800	2,400
Ningsia	..	2,400	2,400
Fukien	5,100	..	300
Kwangtung	25,000	6,100	4,600
Kwangsi	11,000	23,000	5,280
Yunnan	18,000	6,000	3,548
Kweichow	9,000	25,408	32,216
Liaoning*	..	13,000	27,000
Kirin**	..	..	..
Sinkiang	500	..	..
Total	1,671,330	500	500
		348,535	311,843

Notes: *Iron production in Liaoning in 1931 amounted to 963,529 m. tons.
** Iron production in Kirin in 1931 amounted to 300 m. tons.
Source: Ministry of Economic Affairs

Table 8—Steel Production (metric tons)

	1944	1945	1946	1947
Government-owned Mills	7,603	12,206	7,536	5,657
Private-owned Mills	5,758	8,028	8,164	4,343
Total	13,361	20,234	15,700	10,000

Source: Ministry of Economic Affairs

Table 9—Pig Iron Production (metric tons)

	1944	1945	1946	1947 (Jan.-June)
Government-owned Mills	12,523	22,556	1,326	8,994
Private-owned Mills	27,611	25,939	29,674	5,006
Total	40,134	48,495	31,000	14,000

Source: Ministry of Economic Affairs

ficial deposits and rock ores. Tin is also produced in Kwangsi, Kiangsi, Kwangtung and Hunan.

Tin is an export mineral. The National Resources Commission maintains modern smelters to refine tin to a purity of 99.95% (Yunnan tin) and 99.80% (Kwangsi tin).

Of the 652,000 m. tons of tin reserves in China, Yunnan has 360,000 m. tons, Kiangsi 240,000 m. tons, and Kwangsi 52,000 m. tons.

Antimony

The production of antimony in China is led by Hunan where more than 30 *hsien* are antimony-producing centers. Kweichow also produces considerable antimony. Findings have been reported in Yunnan, Kwangsi, Kwangtung, Anhwei, Hupeh, Szechwan and Kiangsi.

Known antimony reserves are located in five provinces: Hunan, 1,995,500 m. tons; Kwangtung, 1,183,000 m. tons;

Table 10—Oil Reserves (metric tons)

Province	Mineral Oil	Oil Shale
Liaoning and Jehol	20,000,000	301,000,000
Shensi	222,000	118,000,000
Kansu (Yumen)	29,000,000	..
Kansu	30,000,000	4,000,000
Szechwan	59,033,000	..
Sinkiang	120,600,000	..
Kirin	..	30,000,000
Kwangtung	..	65,000,000
Other Provinces	..	2,000,000
Total	258,855,000	520,000,000

Source: Bureau of Mineral Exploration of National Resources Commission.

Mercury

Mercury is chiefly produced in Kweichow and Hunan. Szechwan, Sikang, Yunnan, Kwangsi and Kansu also produce mercury in small quantities. The mercury mined and smelted on the border of Kweichow and Hunan is 99.98% pure. Government-owned smelters produced ten m. tons of refined mercury in 1947.

Alum and Bauxite

Alum is found in the boundary district of Chekiang and Fukien, Anhwei and Kweichow. The Anhwei reserve at Lukiang and Wuwei was estimated at Kweichow, 509,810 m. tons; Kwangsi, 66,560 m. tons; and Yunnan, 48,000 m. tons (National Geological Survey figures).

Table 11—Estimated Manganese Ore Reserves (metric tons)

Province	Tonnage	Kind of Ore	Content
Fukien	931,000	Psilomelane, Pyrolysite	34–43%
Kiangsi	3,758,600	Psilomelane, Pyrolysite	38–52%
Hunan	1,550,120	Psilomelane, Pyrolysite	15–58%
Kansu	800,000	Psilomelane, Pyrolysite	41.74%
Taiwan	300,000	Psilomelane, Pyrolysite	35%
Kwangtung	18,661,000	Psilomelane, Pyrolysite	20–45%
Kwangsi	3,638,000	Psilomelane, Pyrolysite	41–50%
Liaoning	50,000	Psilomelane, Pyrolysite	40%
Total	29,688,720		

Source: National Geological Survey of China

23,939,000 m. tons, and the Chekiang reserve at Pingyang 552,752,000 m. tons. The alum content of the Chekiang ore is 74%. (See Table 14.)

Bauxite is mainly found in Liaoning and Shantung. Hopei, Kweichow and Yunnan are also rich in bauxite reserves. The Shantung reserves have 271-million m. tons of bauxite which could give an estimated 68-million m. tons of aluminum. The Liaoning reserves total 110-million m. tons which could yield an estimated 29,651,000 m. tons of aluminum. (See Table 15.)

Production of aluminum of the plant in Taiwan (formerly operated by Japanese) is about 20,000 m. tons per year.

Molybdenum

Molybdenum is produced in small quantities in Chekiang, Fukien, Shantung, Kwangtung, Kwangsi, Hunan and Kiangsi, mostly found together with tungsten and bismuth. A very small amount of molybdenum is produced at Pingyang and Hohsien in Kwangsi.

Table 12—Average Annual Gold Production (ounces)

Province	Quantity
Hunan	57,740
Szechwan	31,400
Sikang	18,500
Kweichow	1,550
Yunnan	1,500
Kwantung	6,400
Kwangsi	5,980
Fukien	100
Kiangsi	3,200
Chinghai	5,670
Kansu	4,000
Sinkiang	15,000
Shantung	27,500
Hopei	13,000
Shensi, Honan, Hupeh, Chekiang	1,000
The Northeastern Provinces	120,000
Taiwan	10,000
Total	322,540

Source: Ministry of Economic Affairs

Table 13—Estimated Reserve of Pure Copper (metric tons)

Province	Tons
Yunnan	270,490
Sikang	260,800
Szechwan	27,500
Kweichow	178,000
Hupeh	18,000
Shansi	4,000
Shensi	3,780
Liaoning, Liaopei, Antung	4,800
Taiwan	427,000
Other Provinces	200,000
Total	1,394,370

Source: National Geological Survey of China.

Table 14—Estimated Alum Reserve (metric tons)

Locality	Aluminite Reserve	Content of Alumite	Alumite Reserve	Content of Alum	Alum Reserve
Pingyang, Chekiang	552,752,000	30–60%	236,543,000	74%	175,042,000
Lukiang, Anhwei	47,610,000	26–38%	13,893,000	3.33%	4,626,000
Wuwei, Anhwei	43,520,000	60%	26,112,000	74%	19,313,000
Total	643,882,000		276,548,000		198,981,000

Source: National Geological Survey of China

Table 15—Estimated Bauxite Reserve (metric tons)

Province	Ore	Tons	Content	
			Al_2O_3	SiO_2
Shantung	Bauxite	68,000,000	51.66%	29.67%
Kweichow	Bauxite	44,616,000	47.77%	33.22%
Yunnan	Bauxite	..	64.79%	7.90%
Hopei	Aluminum Shale	..	..	..
Yentai, Liaoning	Bauxite, Aluminum Shale	1,651,000	44.48%	30.95%
Penshi, Liaoning	Shale	..	40%	..
Fuhsien, Liaoning	Bauxite	28,000,000	36.50%	46.24%
Total		142,267,000	..	..

Source: National Geological Survey of China

Nickel

Sikang has two good reserves of nickel. One is at Hweili which is estimated at 70,000 m. tons. Another reserve lies at Tienchuan with an estimated 270,000 m. tons.

Arsenic

Arsenic oxide is obtained by oxidizing the arseno-pyrite which occurs in association with iron pyrite in southern Honan. Realgar and orpiment are worked in Yunnan and western Hunan. Kwangsi also produces arsenic oxide. In 1935, southern Hunan produced 820 m. tons of arsenic oxide, Yunnan produced 341 m. tons of realgar and orpiment, and Kwangsi produced 15 m. tons of arsenic oxide.

Bismuth

Bismuth ore is found usually as an accessory mineral with tungsten, hence it is worked and mined together with tungsten. The leading producing centers are Kwangsi, Kiangsi, Kwangtung and Hunan. A total of 130 m. tons of bismuth was produced in 1931—a peak year. Production dropped to 73 m. tons in 1934.

Salt

Salt is produced in most provinces in China. The average annual production is about 3,220,000 tons, 85% of which is produced from sea water in the coastal provinces; 6% from rock salt and salt wells in Szechwan, Yunnan, Hunan and Hupeh; 4% from salt lakes in Shansi, Shensi, Kansu, Chinghai, Ningsia and Sinkiang; and 5% along the Yellow river in Honan and Hopei. Annual production of salt in China is shown in Table 16.

Gypsum

Gypsum is found in nearly every province in China. The main reserves are found in the northwestern provinces of

Sinkiang, Ningsia, Chinghai, Kansu and Shensi. Important findings have also been reported from Hupeh, Hunan, Szechwan, Kiangsi, Kweichow and Yunnan. The average annual production of gypsum in China is about 80,000 m. tons with Hupeh leading with an annual average of 58,000 m. tons.

The National Geological Survey of China reported that of the 611-million m. tons of gypsum reserves in the country, Kansu accounts for 500-million and Sinkiang 111-million m. tons.

Saltpeter

Most of China's saltpeter is produced in Hopei, Kiangsu, Honan, Shantung, Kwangtung and Hunan. Chinghai has a rich reserve of Chile saltpeter.

Annual production of 6,420 m. tons of saltpeter, according to the National Geological Survey of China, originates from Hopei (1,200 m. tons), Honan (800), Hunan (500), Shantung (500), Kiangsu (500), Szechwan (330), Heilungkiang (300), Fukien (300), Shansi (240), Kwangtung (500), Liaoning (350), Hupeh (200), Kweichow (100), Shensi (100), other provinces (500).

Phosphorus

China has an abundant phosphorus reserve, according to recent studies. Yunnan and Kiangsu have the largest reserves. The Yunnan reserves, centered around Kunming, are estimated at 50-million m. tons, with a phosphorus content of 15.53 to 42%. The Kiangsu reserves are centered around Tunghai and are estimated at 2-million m. tons. Bird droppings on the Paracel Island off the Kwangtung coast provide an estimated reserve of 200,000 m. tons of phosphorus.

Sulphur

With the exception of some natural sulphur reserves in Chinghai, Jehol and Ningsia, China's sulphur is mainly produced from pyrites, which occur in every province either in coal seams or in association with the sulphide ores of lead and zinc. The total national reserve is estimated at 80-million m. tons. Calculated at an average sulphur content of 20%, the potential yield is 16-million m. tons of pure sulphur.

Potassium

Potassium is produced in China together with salt and gypsum. Salt waters from the salt wells at Tzeliuching in Szechwan contain 1.5-3.7% of potassium. An annual average of 2,700 m. tons of potassium can be produced from the Tzeliuching wells. Rich potassium contents can also be found in the salt lakes in the northwestern provinces.

Graphite

Graphite is found in several provinces, including Hunan, Honan, Suiyuan, Kiangsi, Szechwan and Kiangsu. The Suiyuan reserves total 10-million m. tons. Honan has an estimated graphite reserve of 5,400,000 m. tons. Hunan now produces about 150 m. tons of graphite each year. Before the war, Hsiashu, near Nanking, produced 1,500 to 2,000 m. tons of graphite each year.

Table 16—Annual Salt Production (Piculs*)

Area	Production
Tunghai, Kiangsu	7,650,000
Shantung	8,000,000
Hopei	4,400,000
Shansi	1,200,000
Inner Mongolia	200,000
Ningsia and Suiyuan	182,000
Liaoning	6,000,000
Port Arthur and Dairen	6,000,000
Northern Kiangsu	620,000
Chekiang	4,200,000
Szechwan	7,000,000
Kwangtung-Fukien	5,000,000
Total	50,452,000

*1 picul equals 110 pounds

Source: Ministry of Economic Affairs

Mica

The best mica reserves in China are found in Sikiang, Suiyuan and Honan. Mica crystals found in these provinces average 30 cm. in diameter. Hopei and Sinkiang also have good mica reserves.

Platinum

Platinum reserves have been reported in southern Shensi recently. They are found together with gold sand in river sand bars.

Fluorspar

Fluorspar is mainly produced in the province of Chekiang where the total reserve is estimated at 400,000 m. tons. The prewar annual production of fluorspar in Chekiang was from 7,000 to 8,000 m. tons. Hunan, Honan, Shantung, Liaoning, Shansi and Szechwan also produce fluorspar. The Szechwan production reached 10,000 m. tons a year before the war.

Talc

Talc has been mined in Liaoning for a number of years. In 1933 the production was 60,000 m. tons. Shantung also produces talc to the amount of 1,000 m. tons a year.

Clay

Clay is chiefly worked for the pottery or porcelain industry. Kiangsi annually produces about 150,000 m. tons of clay to meet the needs of the porcelain industry there. Hopei produces 200,000 m. tons, Shantung 80,000 m. tons and Kiangsu 60,000 m. tons a year for pottery making. Szechwan produces a considerable amount. Keichow, Sikang and Yunnan also produce clay for pottery-making. Fireclay is produced in Szechwan.

Asbestos

Asbestos is found in many provinces. Liaoning and Hopei produce asbestos in good quantities. Sikang, Kwangsi and Hunnan also produce asbestos. The Sikang reserve has fibers six inches long. It is one of the leading asbestos reserves in China.

Limestone

Limestone is mined for the making of lime and cement and is produced in all provinces. But the production is rather scattered. Total national production is estimated at 5-million m. tons. Of the southwestern provinces, Szechwan produces 150,000 m. tons, Yunnan 50,000 m. tons and Kweichow 30,000 m. tons a year.

Thorium and Uranium

Thorium and uranium ore has been discovered recently by the National Resources Commission's experts in Hohsien, Fuchuan and Chungshan in Kwangsi province. According to recent studies, the thorium content of the ore is 0.158%, while the uranium content is 0.6%. As these two rare minerals are of supreme importance to national defense, the *Regulations Concerning the Control of Thorium and Uranium Ores* were promulgated in March, 1948, by the Executive Yuan. The uranium and thorium ores are designated as national reserves, hence private prospecting and exploitation of the said minerals are forbidden.

Precious Stones

Southwest China is famous for its production of precious stones. Emeralds, amber, agates, rubies and sapphires are found in Yunnan. Sikang and Sinkiang are famous for jade production.

MINING LAW

The Chinese *Mining Law* as promulgated on May 26, 1930, was revised for the sixth time on June 8, 1944. Highlights of the law are:

1. Mining rights within the Republic of China belong to the government. No prospecting for or exploitation of any mineral is allowed except when such rights are given by the government according to law.

2. All citizens of the Republic of China have the right to mine for minerals except in national mining districts and national reserves.

3. Foreign capital may be admitted in a mining company with the approval of the Executive Yuan through the Ministry of Economic Affairs, subject to the following conditions: a. The Chinese capital of the company shall be more than half of the total; and b. More than half of the board directors and the managers of the company shall be Chinese

citizens. These rulings are applicable to private mining industries as well as to those belonging to the central or local governments.

4. Iron, mineral oil, copper and coal reserves fit for the manufacturing of coke and liquid fuel shall be prospected and exploited by the government. They may be leased to private enterprises (limited to citizens of the Republic of China) when it is not necessary for the government to undertake such prospecting and exploitation. The government has priority in the purchase of iron ore, mineral oil and copper ore products. Any exploitation of such minerals shall require the sanction of the authorities. The Ministry of Economic Affairs shall determine the standard of coal deposits fit for the manufacture of coke and liquid fuel.

5. Iron, mineral oil, coal deposits fit for the manufacture of coke and liquid fuel, tungsten, manganese, aluminum, apatite, molybdenum, tin, mercury, bismuth and other ores specified by the Executive Yuan at the request of the Ministry of Economic Affairs may, when necessary, be designated as national reserves and private prospecting and exploitation of the said minerals shall be forbidden.

CHAPTER 16

WATER CONSERVANCY

ADMINISTRATION

China has had a centralized administration in charge of water conservancy for less than a decade. The first national organ, known as the National Water Conservancy Commission, was created under the Executive Yuan in September, 1941. In July, 1946, it became one of the Executive Yuan's component units and in May, 1947, it was made a full-fledged Ministry of Water Conservancy. But in March, 1949, it was abolished and its functions were transferred to the Ministry of Economic Affairs.

The Ministry supervised all conservancy projects that were national in character and assisted in the execution of those undertaken by local authorities. Its primary purpose was: (1) to regulate river courses and erect dikes to minimize dangers of flood and similar catastrophes; (2) to improve and develop irrigation canals in order to increase agricultural production; (3) to maintain navigable waterways in serviceable condition so as to facilitate river transportation, and (4) to develop hydraulic engineering for industrial advancement. Special emphasis has been given to farmland irrigation and flood prevention.

Conservancy Agencies

Directly under the Ministry of Water Conservancy at the end of 1947 were 11 regional conservancy agencies. Ten of them had been operative prior to the establishment of the Ministry. They were: The Hwai River Conservancy Bureau, Yellow River Conservancy Bureau, Yangtze River Conservancy Bureau, North China Conservancy Bureau, Pearl River Conservancy Bureau, Kiang-Han Engineering Bureau, King-Lo Irrigation Engineering Bureau, National Hydraulic Research Institute, Model Hydraulic Engineering Office, and Hai River Conservancy Bureau. The Northeast Conservancy Bureau was set up in September, 1947.

In addition, the Ministry of Water Conservancy had under it three irrigation engineering corps, namely, the Sinkiang Irrigation Surveying Corps, the Kansu Hosi (west of the Yellow river) Irrigation Corps and the Suiyuan Irrigation Corps, and 469 hydrometric surveying stations of which 202 were set up in 1947.

Regional administration of water conservancy enterprises varied from province to province. At the end of 1947, Hunan, Kwangtung and Jehol delegated such authority to their reconstruction departments while 23 other provinces each had a special organ to look after their water conservation affairs—a water conservancy bureau or its equivalent. These provinces were Kiangsu, Chekiang, Anhwei, Kiangsi, Hupeh, Szechwan, Sikang, Hopei, Shantung, Shansi, Honan, Shensi, Kansu, Chinghai, Ningsia, Fukien, Kwangsi, Yunnan, Kweichow, Chahar, Suiyuan, Sinkiang, and Taiwan. Chekiang and Kiangsu each had an additional conservation organ to carry out special projects: the Northern Kiangsu Grand Canal Engineering Office and the Chientang River Engineering Bureau. In the case of the Nine Northeastern Provinces there were no water conservancy offices for the individual provinces. All such projects in that region came under the Northeast Water Conservancy Bureau.

For 1948, loans from the Farmers' Bank of China, amounting to CNC$750-billion were to finance 28 large irrigation projects in 14 provinces which, when completed, would benefit a combined acreage of 3,668,530 *mow*.

FARMLAND IRRIGATION

Farmland irrigation projects are generally financed either by appropriations from the National Government or loans from banks. The Ministry of Water Conservancy in charge of all large projects including the construction of canals, whereas minor projects such as the digging of wells and re-dredging work were

often left to the Ministry of Agriculture and Forestry.

Loan-Financed Projects

The government embarked upon its loan-financed, large-scale irrigation projects in 1941 to boost the country's food production. The loans were extended through the Farmers' Bank of China. By the end of 1947 such loans had benefitted 18 provinces through the completion of 91 irrigation works capable of watering an aggregate area of 2,859,137 *mow*, which can yield 4,170,000 more piculs of grain each year. Fifteen of these projects, notably the Lohui Canal Project in Shensi, were completed in 1947 through loans totalling CNC$361,876,936, benefitting 1,327,066 *mow* of land. The 18 provinces were Szechwan, Sikang, Yunnan, Kweichow, Kwangtung, Kwangsi, Hunan, Chekiang, Kiangsi, Fukien, Hupeh, Hunan, Anhwei, Shensi, Kansu, Ningsia, Chinghai, and Suiyuan.

Fund-Financed Projects

Since the need for farmland irrigation could but partly be met by loans from the Farmers' Bank of China, the Government in 1947 set aside CNC$20-billion as a Farmland Irrigation Fund. Allocations were to be made out of this fund during that year to construct 16 new projects in Kiangsu, Chekiang, Fukien, Kwangsi, Shantung, Honan, Kansu, Suiyuan and Shansi, in addition to financing five unfinished works in Honan, Shensi and Kansu. The acreage of land thus to be benefitted was estimated at 6,095,130 *mow*.

For the first half of 1948, the Government earmarked CNC$100-billion for 15 irrigation projects in eight provinces, either already under construction or to be initiated. Periods of completion of these projects ranged from five months to two and a half years. As a result, it was expected that 4,992,652 *mow* of land benefitted would yield 2,212,280 piculs of grain and 7,500 piculs of cotton.

The Lohui Canal Project

Of the 91 irrigation jobs completed up to the end of 1947, the Lohui Canal Project represented the largest and most difficult of its kind ever attempted in modern China. The project, which involved the excavation of five tunnels and the building of two dams, took 14 years to build (1934 to 1947).

The canal was completed in September, 1947, and was formally opened for irrigation purposes on December 12, when water from the Lo river was diverted to irrigate 500,000 *mow* (83,000 acres) of farmland in southeastern Shensi. It is 96 km. in length and has six branches, traversing the counties of Tali, Chaoyi and Pucheng, northeast of Sian in the area where the Lo river empties into the Yellow river. The soil thus enriched is

Table 1—Loan-Financed, Large Irrigation Projects Completed in 1947

Province	Location	Name of Project	Area Irrigated (*mow*)	Yield in Piculs
Szechwan	Hwayang	Shahopao	16,000	24,000
	Kuanhsien	Tukiangyen	8,000	12,000
	Santai	Tawei Dam	13,000	19,500
Kweichow	Huishui	Lienkiang	25,200	37,800
	Kweicho	Chungtsaossu	4,600	6,900
Kwangtung	Waiyang	Maanwei	150,000	225,000
	Kukong	Fengwanshui	6,100	9,150
Kwangsi	Linchwan	Kantangkiang	14,556	21,834
Honan	Tenghsien	Chwanhui Canal	153,610	230,415
Shensi	Tali	Lohui Canal	500,000	750,000
	Yenyang	Lihui Canal	230,000	345,000
	Panhsin	Laohui Canal	100,000	150,000
Kansu	Yungtsing	Yungfeng Canal	23,000	34,500
	Kinta, Kiuchuan	Sufeng Canal	70,000	105,000
Chinghai	Huchu	Tsaochiapao	13,000	19,500
Total		15 Projects	1,327,066	1,990,599

Source: Ministry of Water Conservancy

Table 2—Loan-Financed, Large Irrigation Projects for 1948 Estimate

Province	Location	Name of Project	Area to be Irrigated (*mow*)	Loan Allocations* 1st Half of 1948 in Millions	Loan Allocations* 2nd Half of 1948 in Millions
				CNC$	CNC$
Kwangsi	Lohsien	Shihliuho	32,950	10,000	..
	Siujen	Huangtungho	10,300	9,200	..
Kwangtung	Toishan	Hsuantanpo	6,800	10,000	5,900
	Tsungfa	Wenchuanpi	75,000	..	100,000
Fukien	Hweian	Linwanghsi	66,000	34,000	..
	Futsing	Tienpaopo	15,000	6,000	..
	Ningteh	Hsipitang	10,000	4,000	..
	Changting	Chotienhsiang	3,400	2,200	..
Chekiang	Kinhwa	Huhaitang	20,000	12,000	9,800
	Fuyang	Chengpei	40,000	4,800	17,700
	Chuhsien	Huanglingchwan	7,000	1,800	5,180
	Yuyao	Moshanhu	7,000	1,800	..
	Changhing	Taihu Causeway	100,000	5,000	..
	Hangchow	Zakow Pump Station	100,000	6,000	9,000
Kiangsi	Anfu	Anfu Canal	13,000	20,000	12,000
Hupeh	Wuchang	Chinshui Farm	31,000	9,600	18,400
	Lichwan	Tatang	17,000	1,200	2,300
Kiangsu	Wukiang	Pangshanhu	8,000	9,000	..
Shensi	Lunghsien	Hsinghui Canal	30,000	34,000	32,000
	Nancheng	Lenghui Canal	40,900	40,000	..
	Shantan	Water Diversion	20,000	23,100	..
	Yungtsing	Yunglo Canal	46,000	23,000	77,800
	Kingta	Sufeng Canal (2nd Stage)	100,000	24,000	..
Ningsia		Annual Repairs	1,886,480	9,600	..
Suiyuan		Annual Repairs	670,000	36,000	..
Chahar		Annual Repairs	220,000	7,200	..
Chinghai	Sining	Lingan Canal	19,000	..	48,000
Szechwan		Liangtanho and other unfinished projects	89,000	..	37,000
Total		28 Projects	3,683,830	CNC$343,500—Million	CNC$385,080—Million

*The loan allocations, aggregating CNC$750-billion, include CNC$343,500-million for the first half of 1948 and CNC$385,080-million for the second half of 1948 as well as CNC$21,420-million as a reserve fund. The total amount was to be granted through the Farmers' Bank of China.

Source: Ministry of Water Conservancy

expected to bring an annual yield of 100,000 piculs of wheat, 75,000 piculs of beans and 75,000 piculs of cotton, which will more than pay off the canal's construction cost of $3,015,000 (at its prewar value) in government appropriations.

The Lo river, about 450 km. long, rises in northwest Shensi, coming down the loess-covered hills to the alluvial plain, is heavily laden with silt. Its irrigation value is negligible until it reaches the border line of Pucheng and Tengcheng in southeastern Shensi where it is no longer confined in the rocky mountains. At Laochuang, in the county of Tengcheng both its banks and bed are limestone, suitable for the construction of a spillway dam to divert water for irrigation purposes. The idea was evolved by Li Yi-chih, China's foremost hydraulic engineer, who thereupon blueprinted the Lohui Canal but did not live to see it realized. He died in 1937.

The Lohui canal project in its final form comprises an arc-shaped dam, 16.20 m. high and 177 m. long, built of concrete and loose rocks; a small dam which directs water into the canal and a regulator which diverts into six other channels in order to drain more land than a single waterway can possibly service. Near the dam is an escape-sluice which returns the excessive water during flood season to the Lo river.

Between Laochuang, where the spillway dam is located, and the diversion regulator, where the six branches leave the canal, there is a distance of some 20 km. through the Tienlien mountains. To permit the water to flow through, five tunnels were dug through the cliffs. The fifth tunnel, 3,377 m. in length is the longest of its kind in China. Its excavation took 11 years and 51 lives, including that of an engineer. The tunnel was chiseled through a mountain abundant in shifting sand and subterranean rivers which caused cave-ins.

Work on the tunnel began in February, 1935. Throughout the war, even when the Japanese were only a few miles away across the Yellow river, work went on. It was finally completed in November, 1946.

FLOOD CONTROL

China's recurring floods are reminders of the magnitude of control measures necessary to preserve large areas of fertile farmland for cultivation. In the immediate postwar period, China, with material and technical aid from UNRRA, began the repairing of dikes and conservancy projects, many of which were either damaged or had fallen into disrepair due to wartime neglect.

By the end of 1947, a total of 11 flood prevention projects sponsored by the Ministry of Water Conservancy were in various stages of progress, some nearing completion. The Yellow River Project received the highest priority and was almost completed. The project was expected to effect the reclamation of some 12-million *mow* of farmland. The other projects concerned primarily repairs on dikes along the Yangtze and Pearl rivers and the Grand Canal, the total drainage area of which is approximately eight and one-half times that of the Yellow river flooded area with a production capacity ten times as great.

Supplementary statistics made available late in August, 1948, by the Ministry of Water Conservancy indicated that the flood prevention projects had made considerable headway during the first six months of the year. Earthwork and stonework completed up till June were given as 4,851,878.89 and 15,335.13 cu.m., respectively. The projects covered the main waterways of the country including the Yangtze, Yellow, Pearl, Hwai and Pai rivers and the Grand Canal as well as nine small rivers in Kiangsu.

The Yellow River Program

The Yellow river (Hwang Ho) diversion and dike repair project marked one of the largest and most difficult engineering feats ever undertaken in China.

The Hwang Ho has been called the most fascinating and baffling of the world's great rivers — fascinating because of its complexities; baffling because many of its vagaries have not yet been understood and conquered.

In forcing the river to return to its prewar course, a mile-long dike had to be built and 1,300 km. of double dikes stretching from Kaifeng, Honan, to the sea had to be repaired.

This project, which received major UNRRA and CNRRA contributions in money, food, machinery and skill, was carried out by the Yellow River Conservancy Commission of the Ministry of Water Conservancy.

(a) Sealing of the Gap

Since ancient times the Yellow river has changed its course nine times and dike breaches have occurred 2,000 times, averaging once every two years. Attempts to seal the dike breaches had been made before, but none had proved so difficult as the project that centered around the

Table 3—Allocations of the Farmland Irrigation Fund for the First Half of 1948

Province	Location	Name of Project	Area Irrigated (*mow*)	Period of Completion	Production Increase (piculs)			Allocations in Millions
					Rice	Wheat	Misc. Products	
Fukien	Changlo	Lienpin Harbor	36,000	5 months	76,000	...	...	CNC$ 8,400
Shantung	Changkiu	Hsiuhui Canal	45,122	9 months	..	20,000	5,000	6,274
Suiyuan	Rear of Yellow River Bend	Yangchiaho	1,120,700	2½ years	..	1,197,000	..	29,280
		Yungtsi Canal	1,044,000					
		Fuhsing Canal	812,000					
		Yiho Canal	628,000					
Shensi	Chengku	Suhui Canal	162,630	5 months	340,000	...	...	8,000
	Tali	Lohui Canal	500,000	6 months	100,000	75,000	7,500*	6,000
Kansu	Tsingyuan	Tsinglo (Yuansheng) Canal	20,000	6 months	..	20,000	..	1,526
	Kulang	Liutiaoho	15,000	1 year	..	11,280	..	13,520
Chahar	Hwaining	Tungyangho	230,000	2 years	345,000	..	..	10,000
Kiangsu	Kiangning	Yungfeng Dam	5,000	7 months	2,500	..	..	11,000
Shansi	Central Part	Old Canals Repairs	259,200	6 months	..	..	..	5,000
Yunnan	Kunming	Huangtupo	10,000	6 months	15,000	..	..	1,000
		Chenchiying	5,000	6 months	10,000	..	..	..
Total		15 Projects	4,992,652		888,500	1,323,280	12,500	CNC$100-billion

Remarks: Some of the listed projects were old or unfinished.
* In terms of cotton.

Source: Ministry of Water Conservancy.

main break at Huayuankou, an important ferry crossing in Honan.

It was undertaken at a time when the river had continued on the same course for eight years and its continued southward push had poised a threat to areas above the Yangtze river.

The 5,000-foot break in the dike south of the Yellow river was made in June, 1938, to check the Japanese advance on Kaifeng, Honan's provincial capital. The cut was made ten miles downstream from the Peiping-Hankow railway bridge.

This diversion of the river brought floods to eastern Honan, northern Anhwei and northern Kiangsu, with results as follows:

Persons displaced	6,135,000
Areas under water	29,000 sq. km.
Area of farmland affected	11,800 sq. km.
Loss of crops per year	1,492,500 tons (including 1,470,000 tons of grain and 22,500 tons of cotton)

Moreover, the waterway system in eastern Honan, northern Anhwei and northern Kiangsu was disrupted and, during the high-water season, the Tientsin-Pukow railway and the Lunghai line were frequently interrupted.

Work on the gap-sealing project began on March 1, 1946, under the auspices of the Yellow River Conservancy Commission and CNRRA's Honan regional office with the assistance of 15 foreign experts from UNRRA, headed by Oliver J. Todd, American engineering expert and a veteran of 20 years of experience in China. Foreign personnel also included Soviet, Norwegian, Dutch and other nationalities. Labor was recruited under an arrangement that provided both relief and employment.

The Huayuankou breach, increasingly widened through the years, measured 1,460 m. in length when the closure project began. The river bed was 18 m. deep. To return the river to its original course, it was necessary to raise the water mark by more than three meters.

After repeated attempts to stem the rushing current through the erection of dams had failed, it was decided to discard the orthodox scientific methods and resort to the old Chinese way of holding back the river waters by blocking them. Instead of iron and cement, kaoliang (sorghum) stalks, willow branches and stones were used in the building of new dams. At first, the water ran through the open construction but the silt and sand borne by the current soon stopped the openings. The faster the water flowed, the more sand was deposited. Thereupon, the stones were cast in. And the dams held.

Finally on March 15, 1947, the breach at Huayuankou was sealed with a great waterproof dam 250 feet in width.

Into the creation of this massive wall went 3,800,000 man-days of work; 5,000 tons of UNRRA flour, for partial payment of workers; 2,750,000 cu. m. of earthwork; 430,000 piculs of kaoliang stalks; 1,050,000 piculs of willow branches; 60 tons of galvanized iron wire; 100 tons of locally-made hemp rope; 2,500,000 sand bags; 150,000 cu. m. of rock from quarries 75 km. from the project. In addition, huge appropriations were made by the Chinese Government for administrative expenses and for the purchase of local materials including foodstuffs.

Heavy machinery from the U. S. supplied by UNRRA included pile drivers and timber piles; road rollers and graders; power shovels; cranes; bulldozers; a large fleet of CNRRA highway transport trucks and a light railway system with a gasoline locomotive for moving rock to the closure site. The modern mechanical aids were supplemented by tens of thousands of wheelbarrows, ox carts, donkey carts and men with carrying poles and baskets engaged in moving the vast quantities of earth, rock, kaoliang and willow stalks and other materials.

(b) Dike Repair

Dike repair, which constituted the secondary phase of the general Yellow river program, proved no less difficult and hazardous. Military and political obstacles, which adversely affected the work in government territory, where operations could be concentrated, became more formidable along dikes below Huayuankou. Shantung was almost inaccessible to engineers of the Yellow River Conservancy Commission, since the communists claimed the right to handle all dike-repairing work in areas under their military control.

After a series of conferences, an agreement was reached on May 15, 1946, whereby rebuilding of the dikes in communist-held areas was to be affected by the communists themselves with funds to be appropriated by the National Government. The communists obtained additional funds from the government which they declared would be used to resettle farmers who had been living in the old river bed following the 1938 diversion. All this money was appropriated to them through UNRRA.

Repair work on the 1,400-km. dike of the Yellow river finally got under way in April, 1946, centering at first around the 65-km. segment in Honan which had fallen into serious disrepair. Communists reneging on their pledge, however, caused

Table 4—Flood Prevention Projects (January-June, 1948)

River	Location of Project	Kind of Work	Work Completed (cubic meter)
Pai River	Luan River, Tzeya River, Lower Course of South Grand Canal, Nantawei Embankment (Tientsin)	Earth	218,685.34
		Stone	3,300.00
Hwai River	Main Course and Tributaries	Earth	1,154,007.00
		Stone	11,247.00
Pearl River	East, West and North Rivers, Han River	Earth	508,686.61
		Stone	2,161.90
Grand Canal (south Shantung)	Shihfu, South Shantung	Earth	205,102.00
Kiang-Han Main Dike	Hupeh	Earth	377,070.58
Yangtze River	Anhwei-Kiangsi-Hunan Area	Earth	786,850.00
Yellow River	Honan-Shantung Area	Earth	34,374.94
	Shantung	Stone	788.13
Liao River	Main Course and Tributaries	Earth	144,162.80
Fangting River	Pihsien, Kiangsu	Earth	122,476.49
Pulao River	Pihsien, Kiangsu	Earth	16,761.94
Kuankou River	Tungshanhsien, Kiangsu	Earth	75,628.57
Yen River	Peihsien, Kiangsu	Earth	172,503.73
Kuei River	Hsuchow, Tungshanhsien, Hsiaohsien, Kiangsu	Earth	365,354.10
Grand Canal (middle)	Tanshantsi, Tayushu, Kiangsu	Earth	282,632.58
Hsiangwei River, Puyang River	Changwan and Tatun, Kiangsu	Earth	230,370.30
Shanhou River	Shallow Part of Shanhou River, Kiangsu	Earth	122,614.68
Mo River	Sutsien Hsien, Kiangsu	Earth	34,597.23
Total of Earthwork Completed			4,851,878.89 cubic meters
Total of Stonework Completed			17,497.03 cubic meters
			4,869,375.92

Source: Ministry of Water Conservancy.

numerous delays and setbacks in the repair program, and the situation at times became desperate as government technical personnel and workers operating near communist-held territory were frequently molested. The work score at the end of 1946 was 15,615,829 cu. m. of earthwork finished.

The general pace of dike repair slowed down considerably during 1947 owing to the breakdown of peace negotiations between the government and the communists and the spreading of the latter's armed rebellion. In March, control of the north bank of the Yellow river embankment in Honan passed to the communists. The loss was somewhat offset by the government's recapture of the river's south bank in western Shantung which enabled repairs on 113 km. of dikes between Chukou and Shihlipao.

The repairing was further impeded in July when the communists crossed the river from western Shantung. Many government-appointed engineering personnel were attacked, abducted or killed. In August the communists at Sushih and Tafan in northern Honan deliberately breached the dikes at Hsinho, thereby precipitating a serious flood.

The problem of repairing dikes at the lower reaches plagued government and UNRRA engineers alike throughout the Yellow river project. Surveyors were not able to complete what they had begun and the conclusion of the dike repairs in Shantung had to be left largely to local organizations. Despite military and political troubles, the dikes were restored by the end of July, 1947. On August 21 an aerial survey by Mr. Oliver J. Todd of the UNRRA engineers' group showed that no breaks had occurred in the system and final investigations in late October showed that the dike repair work along the full length of the river had proven satisfactory.

The picture had become considerably blurred by December, however, with the whole of western Shantung and eastern Honan engulfed in the rebellion and the government evacuation of the Yellow river positions all the way from Lanfeng in Honan down to western Shantung.

As of the end of 1947, repairs scheduled for the year on the south bank of the Yellow river in Honan and Hopei and the Tsiho-Tsinan section in central Shantung had practically all been carried out, covering a total distance of 488 km. Repair projects partially completed included the 113-km. Chukou-Shihlipao section on the south bank in western Shantung and another 95 km. of dikes repaired by the local people themselves.

The Yangtze River Project

The dikes along the Yangtze river stretch for more than 1,800 km. from Shasi in Hupeh down to Chinkiang in Kiangsu, while those along its tributaries, the Han and Kan rivers and Poyang lake, extend for more than 1,900 km. Farming along the Yangtze and its tributaries depends on the upkeep of these dikes, which protect an estimated 46-million *mow* of cultivated land. At many places, the farms are from six to 18 feet below the adjacent rivers at time of high water. At the end of the war, many sections of these dikes were found to be badly in need of repair. A repair program was worked out by the former National Conservancy Commission and launched in April, 1946, with UNRRA's assistance. The total earthwork and stonework required for the project were estimated to be 78-million and 48,000 cu. m., respectively, apart from 70,700 tons of foodstuffs for the laborers to be employed. By the end of 1947, 14,167,519 cu. m. of earthwork and 48,126 cu. m. of stonework had been moved, and 37,828 tons of foodstuffs had been used by 20-million workers.

The Hwai River Project

Also started in April, 1946, was the repair project on the Hwai river dikes, which stretch for about 1,100 km. from Hunghokow in Honan down to Shuangkowchen in Anhwei and protect 21-million *mow* of farmlands in the latter province. However, beyond some minor earthwork, little was accomplished in that year because Yellow river waters, still crossing the path of the Hwai river, so raised the latter's level that work along the banks was impossible. When the south dike of the Yellow river was cut in 1938, its waters flowed through the Sha Ho and minor tributaries into the Hwai river. Since the capacity of the Hwai river is considerably smaller than that of the Yellow river and its bed is not wide enough to carry the Yellow river water in addition to its own, its dikes between the Sha Ho and Hungtze lake gave way. Water flowing through the gaps inundated an area of 2,000 sq. km.

Large-scale dike operations along the Hwai river did not start until after the closure of the Huayuankou gap in the Yellow river dike. By the end of 1947, in little more than ten months, 15,314,045 cu. m. of earthwork had been moved which involved a labor force of 7,965,766 persons and 24,100 tons of food consumed.

This represented a 90% completion of the repair program which had benefitted 3-million inhabitants in the Hwai river valley in Anhwei, by restoring to them at least 1,000 sq. km. of farmland. Apart from the repairing and construction of dikes, several slit banks were excavated to improve navigation. Certain parts of the newly built dikes were reinforced by stone.

The Hwai river has its source in Shensi, becomes navigable by heavy-laden junks at its confluence with the Sha Ho in Anhwei, and ends its 600-km. course in Hungtze lake. The lake is one of the larger natural water reservoirs in central China, from whence a small part of its water flows into the East China Sea and the rest through a system of lakes and laterals into the Yangtze river, near Chinkiang.

The Pearl River Project

The low-lying Pearl river delta depends on dikes for its protection. During the Sino-Japanese war, these dikes fell into disrepair, causing a large acreage of farmland to be flooded. A postwar project covering the East, West and North rivers, all tributaries of the Pearl and the Han rivers in eastern Kwangtung called for the repairing of 257 out of 1,009 km. of dikes in order to protect 10-million *mow* of cultivated lands. It was estimated that 24,140,000 cu. m. of earthwork and 6,700 cu. m. of stonework would be necessary. Actual repairing work was commenced in March, 1946, and progressed well till May and June when unusually heavy rains caused a number of breaches in dikes that were to be strengthened. (The rehabilitation project for the inundated areas is detailed elsewhere in the chapter.) By the end of 1947, 3,821,158.90 cu. m. of earth and 2,293,106.5 cu. m. of rocks had been moved and 10,190,839 metric tons of foodstuffs consumed by 4,495,860 workers on the project.

The Grand Canal Dike Repair

The Shantung-Kiangsu section of the Grand Canal runs from Tsining in southern Shantung through northern Kiangsu to Chinkiang on the Yangtze. The dikes on both sides of the canal and its tributaries extend for approximately 1,540 km. and protect 44,600,000 *mow* of farmland. During the war this part of the country was under the occupation of the Japanese who did nothing to maintain the dikes. Although the Japanese carried away all steel structures, the locks themselves were in a usable condition. Work on the canal began in May, 1946, but did not really get under way until the spring of 1947 because of communist disturbances in the area. By the end of 1947, 2,292,268 cu. m. of earth and 34,918 cu. m. of stone had been removed and 10,800 tons of foodstuffs used by 5,999,817 workers on the project.

The Pai River System Dike Repair

The Pai River System comprises the Yungting, Taching and Tzeya rivers and the southern and northern sections of the Grand Canal. There was an aggregate length of 3,395 km. of dikes protecting 55-million *mow* of cultivated land. In view of the disastrous Yungting river flood in 1939, the former National Conservancy Commission had, prior to the return of the government to Nanking in May, 1946, mapped out a repair project for the north China river system to be completed within two years. Work on the project began in June, 1946, but its progress was retarded by frequent communist interference. By the end of 1947, of the originally estimated 6,916,495 cu. m. of earthwork and 4,180 cu. m. of stonework required for the project, only 747,421 cu. m. of earth and 1,083 cu. m. of stone had been moved by 517,037 workers who consumed 971 tons of foodstuffs.

The Liao River Dike Repair

The postwar dike repairing project in the Northeastern Provinces primarily concerned the Liao river middle and lower reaches and its tributaries, the Hun, Pu, Taitze and Sha rivers where five breaches were caused by flood waters in July, 1947. At least 2,500,000 *mow* of farmland were under water and property losses were estimated in August to exceed $300-million in Northeastern Circulation Notes, or CNC$4,500-billion at the then prevailing rate of exchange.

The Liao river, which is the main stream of Liaoning province, flows through Tiehling onto the plains and fertile lands of the province. Even before the floods came, the area had been but precariously protected by deteriorating, poorly-constructed river dikes.

In addition to closing the five gaps, the project called for repairs on 60 sections of the dike with an aggregate length of 3,206 m., dredging of the river over a distance of 1,000 m., and the excavation of 1,785,719 cu. m. of earth. Work began in August, 1947, to be completed within two years, with CNRRA supplying the needed foodstuffs for the workers. By the end of the year construction was underway at 59 places with 491,246 cu. m. of

earth already moved by 201,791 workers on the project, but the work had to be suspended later owing to the spreading of the communist rebellion.

The Kiangsu Sea Wall Project

The Kiangsu sea wall, extending for 300 km. from Kingshanwei to Fushankou, Changshu, along the Yangtze, was built to protect farmlands from the high tides of the East China Sea. The area protected by this embankment extends to the north of the Yangtze river, south of the Lunghai railway, east of the Grand Canal and west of the East China Sea. In the past, farmlands behind this sea wall were often inundated by the tidal waters. At the end of the war, many sections of this sea wall were in bad shape. A repair project was launched in March, 1946, by the former National Water Conservancy Commission in conjunction with the Kiangsu provincial government.

It was estimated that upon the completion of the project, approximately 8,500 sq. km. of land would have been reclaimed or protected to make possible an annual production of about 3½ million tons of wheat.

The project included (a) a drainage system; (b) a tide protection system; (c) sluices, locks and headgates; (d) pumping stations, and (e) an irrigation system. With Changshu, Sungkiang and Chwansha as bases of operation, the job of repairing the sea wall in the most crucial areas was well under way by the end of 1947 when at least 8,949 cu. m. of masonry and concrete work had been erected.

The Chientang Dike Project

Whereas the Yellow river has been called "China's Sorrow," the Chientang river is known as her "Prodigal Son." The Chientang sea wall is 308 km. long, stretching from Kiangshanwei to Hangchow bay. It runs 190 km. along the north bank of the river from Shangssuhsiang of Hangchow to Kingssuniang bridge at Pinghu and 180 km. from Lingpuchen, Hsiaoshan to Tsaowochen, Yuyao. The huge sea wall, built of ashlar stone 1,200 years ago by Prince Chien of the South Sung dynasty, fell into disrepair during the war years.

The Chientang Dike Project was sponsored jointly by the former National Conservancy Commission and the Chekiang Provincial Government, with UNRRA assistance. The objective of the project was to force the waters of the Chientang river at Hangchow into a narrow, navigable channel and to safeguard the farmland from flood permanently.

During late August and September the tide comes into Hangchow bay with a great rush and is referred to as the "Hangchow Bore." Squeezed into a narrow area and unable to level off, it overflows the dikes, inundating vast areas of fertile land with salt water.

The Chientang Dike Project was launched in February, 1946, and scheduled for completion in 1949. By August, 1946, the first phase had been finished with some 660 m. of brush dike and 200,000 cu. m. of earth set in place to guard the most dangerous gaps in the sea wall. The brush and earth held the full bore.

Unlike the Yellow river diversion which, at its peak, engaged 400,000 laborers, repair of the Chientang dike was largely a mechanical operation. It employed pile drivers, jack hammers, road rollers, cranes, "pony" locomotives, and 200 narrow-gauge miniature railroad cars for hauling stone from the Tang Hill rock quarry, the largest mechanically operated rock quarry in China. At the end of 1947, the quarry was producing about 300 cu. m. of rock daily.

The hauling of rock to provide the amount needed was the main operation through the second phase of the project, which was actively carried through during 1947. By March, 1948, work had started on the third and last phase which involved the erection of a series of spur dikes jutting out from the Chientang sea wall. Instead of fighting the forces of nature, the spur dikes put those forces to work by catching the river's silt and piling it up on the banks, thus forcing the river out into a single well-defined channel away from the sea wall. This would render unnecessary the continuous repair of the sea wall in the future. It would also increase the productivity of areas concerned and develop Hangchow as a seaport.

Kwangtung Flood Rehabilitation

Following upon the damaging floods in the Pearl river valley in May and June, 1947, which caused many dike breaches and laid waste large tracts of cultivated land, a temporary repair program was launched in August by the Pearl River Conservancy Bureau. It was concluded at the end of December with 595,266 cu. m. of earth and 7,050 cu. m. of stone set in place to afford temporary protection. Meanwhile an overall conservancy project for the flooded area was carried

Table 5.—Repair of Dikes Along Various Large Rivers Since V-J Day—(1946-1947)

Name of Project	Length of Main Dike (kilometer)	Area Protected (*mow*)	Work Completed (cubic meter)	Foodstuffs* (ton)	Funds CNC$	Laborers
Yellow River Dike Repair	1,459	30,000,000	19,207,575.42 (earth)	23,690	54,838,544,812	9,080,962
Yellow River Gap Closure	..	43,500,000	2,952,329.64 (earth)	5,910	41,348,160,701	3,170,000
			96,335.8 (stone)			
Yangtze River Dike Repair (including the Han River)	3,706	46,400,000	26,451,777.00 (earth)	37,828	17,282,080,000	20,000,000
			48,126.00 (stone)	24,000	7,559,007,620	7,965,760
Hwai River Dike Repair	1,084	21,000,000	15,314,045.00 (earth)			
Pearl River Dike Repair (including the Han River)	1,009	10,000,000	3,821,158.90 (earth)	10,191	4,404,800,000	4,495,760
			29,033.53 (stone)			
Grand Canal Dike Repair (Kiangsu and Chekiang)	1,450	44,600,000	2,293,106.50 (earth)	10,800	3,328,130,000	5,999,817
			35,769.00 (stone)			
Pai River System Gap Closure and Dike Repair (including the Luan River)	3,395	55,000,000	747,421.60 (earth)	971	6,412,222,400	517,037
			1,083.00 (stone)	433	600,936,970**	201,791
Liao River Gap Closure and Dike Repair	1,475	15,778,500	491,246.00 (earth)	8,849	14,600,000,000	..
Kiangsu-Chekiang Sea Wall Repair	608	13,600,000	13,788 (meters)			
Total	14,186	279,878,500	71,502,795.39	122,672	149,772,945,533 NE$600,936,970	50,531,127

* Foodstuffs provided for the labor employed
** In Northeast Circulation Notes (then exchange rate: one to $15 Chinese National Currency)
Source: Ministry of Water Conservancy.

out. Work was to cover an aggregate dike distance of 60,471 m. in the area of the East, West and North rivers and the Han river. The project was scheduled for completion before the flood season of 1948 to protect a total of 2,514,096 *mow* of farmland.

North Kiangsu Flood Rehabilitation

During the years of Japanese occupation, the neglected waterways in northern Kiangsu became unnavigible in many sections due to excessive silting. After V-J Day, government efforts to effect extensive repairs on the Grand Canal dike were hamstrung by communist trouble and local unrest. In the summer of 1947, heavy rainfall and rising waters deluged 17 counties, submerging more than 10-million *mow* of farmland, rendering 5-million people homeless. A rehabilitation project was in progress by December that year.

RIVER IMPROVEMENT SCHEMES*

The Yungting River Scheme

In September, 1947, China carried out her most important and comprehensive postwar waterway improvement scheme when work began on the construction of the Kuanting detention reservoir in Huailai, Chahar. The reservoir is one of the principal flood control works of the Yungting River Improvement Scheme proposed by the North China River Commission.

To facilitate construction, an 1,800-km. motor road, parallel to the Yungting river, was to be built from Mupao, a station on the Peiping-Suiyuan railway, to Touying on the opposite bank of Kuanting, for the movement of materials and machineries. The project called for the construction of a Yungting river bridge and store houses and the appropriation of land, the first year. It was scheduled to be completed by 1950.

The Yungting river is the largest river in north China and has a catchment basin embracing 45,270 sq. km. In time of flood it has a maximum discharge of more than 5,000 cu. m. per second, which far exceeds its carrying capacity. Detention reservoirs, when constructed in the upper reaches of the river, will smooth out the flood peaks so as to lessen the danger of inundation.

The proposed detention reservoir, to be built across the upper end of a rocky gorge near the village of Kuanting, is shaped like a funnel and commands a wide valley until Kuanting is reached, which resembles the throat of the funnel. The general features of the reservoir comprise a gravity spillway dam across the gorge and a side tunnel through the right cliff serving as the outlet of the reservoir, and also as a stream diversion tunnel during the period of construction. At ordinary floods, the outlet tunnel alone will be quite effective to level the flood peak and to discharge safely below the dam. The spillway will be operative only in time of maximum flood. The reservoir will undoubtedly be subject to some silting since the Yungting river carries an enormous amount of silt in time of flood. However, it will be effective for about 300 years, according to computations based on all available data.

The Yellow River Scheme

By the end of 1947, the improvement scheme for the Yellow river remained in the blueprint stage. Preparatory measures, to be launched in 1948, included the regulation of ditches in the upper Yellow river to reduce the river's silt deposits and to slow down the current, and the construction of a detention reservoir at Palihutung below Tungkwan (east of Kushui and north of Sinan in northwest Honan) to hold the river's discharge at its lower reaches down to 10,000 cu. m. per second. Other important projects in connection with the Yellow river improvement scheme were also to be worked out on the basis of data which a group of conservancy experts had gathered in 1946 from an investigation tour of a number of cities above Kaifeng, including Chengchow, Shenhsien, Lungmen, Ningsia, Lanchow and Sining.

The Pearl River Scheme

A special appropriation was earmarked in 1948 for the completion of the Pearl river improvement scheme, left unfinished at the end of 1947. Meanwhile it was planned to start the dredging of Canton's rear navigation line at Taweisha, Tashihsha and Yuankangsha in order to make it possible for steamships with a draught of 15 feet to call at Canton at any time of the year. Dredging machines went into operation in April, 1948.

The Hwai River Scheme

Work projects on the Hwai river improvement scheme for 1948 included the repair and construction of the sluices at Hwaiyin in Kiangsu and the movable dams at Sanho in Anhwei. Work was to begin whenever conditions in these regions became stabilized.

Schemes for radical improvement of other rivers such as the Chientang river, the Kan river and the Han river (in Hupeh) were all in a preliminary stage at of the end of 1947.

* The realization of most of these schemes has been indefinitely delayed as a result of the communist occupation of vast areas in the northeast, north and central China in 1948-49.

NATIONAL CONSERVANCY RECONSTRUCTION PLANS

Toward the end of the war, the former National Water Conservancy Commission formulated the first five-year plan for water conservancy which was scheduled to begin the second year after V-J Day. Conditions prevailing throughout 1947, however, made it impossible to carry out the project in its original form. Even up to early in 1948, work on the readjustment of navigation routes and establishment of hydraulic power plants were still being conducted piecemeal—a fault to be remedied by the five-year plan which includes the following essential projects:

Irrigation Projects

According to preliminary estimates, 90-million *mow* of China's wasteland can be reclaimed into paddy fields, and 160-million *mow* of farmland can be similarly transformed. Under the five-year plan, which proposes to use army and civilian labor in reclamation, a new irrigated area totalling 37,100,000 *mow* can be developed with 10,400,000 *mow* in the Yellow river valley, 37,100,000 *mow* in the Yangtze river valley, 4,200,000 *mow* in the Pai river valley, 700,000 *mow* in the Pearl river valley, 1,100,000 *mow* in Sinkiang, and 2,100,000 in Kansu west of the Yellow river. The order in which these areas are to be developed is as follows:

(a) *The Northwest*—This area, comprising Shensi, Kansu, Ningsia, Chinghai, Suiyuan and Sinkiang, where rainfall is negligible, is to have priority in irrigation projects.

(b) *The North*—This area, comprising Shansi, Hopei, Shantung, Honan and Chahar, where rainfall is also slight, comes second in point of urgency regarding irrigation projects.

(c) *The Southwest*—This area, comprising Szechwan, Sikang, Yunnan and Kweichow, has abundant rainfall but irrigation is necessary during the sowing season.

(d) *The Central Area*—This area, comprising Hupeh, Hunan, Kiangsu, Chekiang, Anhwei and Kiangsi, like the south mentioned below, has more rainfall than elsewhere, but deficiant seasonal precipitation often causes poor crops. Simultaneously with flood prevention projects, irrigation is needed to increase the crops.

(e) *The South*—This area, composed of Kwangtung, Kwangsi and Fukien, has characteristics identical with the central area. Crops could be increased with better irrigation.

(f) *The Northeast*—This area is still to be surveyed and investigated.

Readjustment of Navigation Routes

Under the first five-year water conservancy plan, it is proposed to improve all the waterways in the country, including the Sungari river, Liao river, Pai river, Yellow river, Hwai river, Han river, Yangtze river and Pearl river, in order to make them navigable or suitable for use by ships of larger tonnage. The total length of routes coming under this project is approximately 7,200 km. Efforts are to be made to make tributaries of these rivers navigable.

It is proposed to improve the Grand Canal to make it an effective link between the Pai river, the Yellow river, the Hwai river, the Yangtze river and the Chientang river; open the Sungari-Liao canal; divert part of the Yellow river as a canal leading northward from the vicinity of Chengchow to Tientsin and southward to the Hwai river; lengthen the Ling canal between Hunan and Kwangsi to connect the Yangtze and the Pearl river; and connect other provincial waterways, wherever possible, with a close network linked with the main water routes.

Hydraulic Power Projects

Projects under the five-year plan are to produce in the first year 90,000 kw. of hydraulic power in the Yellow river valley, 479,000 kw. in the Yangtze valley, 81,000 kw. in the Pearl river valley, and 100,000 kw. in Fukien and Chekiang, aggregating 750,000 kw. Completion of these projects is expected to give China a total hydraulic power of 1,270,000 kw.

Technical Survey

The five-year plan calls for 103 first-grade, 814 second-grade and 858 third-grade hydrometric stations along China's main waterways, with four aerial survey stations to supply reliable data concerning water conservancy.

THE YVA PROJECT

Completion of Initial Survey and Drilling

Initial survey work on the Yangtze Valley Authority (YVA) project which began in July, 1946, following the second visit to China of Dr. John L. Savage, noted American engineer, was completed in June, 1948, despite extreme financial difficulties. Concluded simultaneously was the drilling at Pingshanpa above Ichang, the YVA site, under the supervision of American technicians.

Although temporary suspension of the YVA project was announced by the government in December, 1947, on account of financial difficulties, preliminary planning and work were continued whenever material and personnel were available. The National Resources Commission has been in charge of the project.

The YVA blueprints were prepared by Dr. Savage in September, 1944, when, at the request of the National Government, he made a survey of the hydro-electric potential of the Yangtze. Dr. Savage became convinced that the Yangtze gorges would provide one of the world's best sites for a hydraulic power project.

According to the blueprints of the American engineer, who was loaned to China by the U. S. Bureau of Reclamation, a dam is to be built at Pingshanpa some ten km. west of Ichang, in western Hupeh. The upper Yangtze watermark is to reach 220 m. and an artificial lake is to be formed from Ichang up to Luhsien, a stretch of 375 km. The drop would be capable of generating 10,500,000 kw. of electricity, or about five times that produced by TVA. The power plant at Ichang would serve cheap power to all towns within a radius of 1,000 km. including Nanking in the east, Taiyuan in the north, Kweiyang and Nanning in the south.

The completion of the YVA project would also facilitate transportation. At present large steamboats can only travel up to Ichang, beyond which there are numerous rapids. If the project is carried through, even 1,000-ton ships will be able to ply up and down the river all the way up to Chungking throughout the year.

As another advantage, the YVA would curtail recurrence of some of China's disastrous floods. Some of the water flowing between Ichang and Luhsien is to be dammed up for reclamation and irrigation purposes, thereby benefiting about 6-million *mow* (1-million acres) of farmland capable of yielding at least US$37-million worth of crops every year.

It is estimated that around US$3-billion would be required to complete the project, including the establishment of auxiliary plants to turn out needed supplies.

CHAPTER 17

LABOR

POLICY AND PROGRAM

On May 5, 1945, the Sixth National Congress of the Kuomintang adopted in Chungking a labor policy which included: (1) development of labor organizations, (2) elevation of workers' status, (3) improvement of workers' livelihood, (4) promotion of labor-management cooperation, (5) adjustment of the supply and demand of labor, (6) increase in labor efficiency, and (7) strengthening of international labor relationship based on the principle of national sovereignty and the spirit of international cooperation.

A labor program drafted in accordance with the above policy was adopted by the same congress on May 17. Its objective was to ensure social stability and to fulfill the needs of national defense and the people's livelihood. Its main points were: (1) all workmen should join trade unions, (2) an eight-hour day and a six-day week schedule should be enforced, (3) organizations should be established to safeguard the welfare of child and woman labor, (4) factory inspection should be enforced, (5) health, accident, and other forms of social insurance should be promoted, (6) supplementary education and cultural facilities should be furnished laborers, (7) technical training should be given to laborers, (8) labor unions should use arbitration and mediation to settle disputes between labor and management, (9) workers should be encouraged to participate in political activities, and (10) workers should be encouraged to promote global labor cooperation to safeguard international social stability.

On January 1, 1947, the National Government promulgated the Constitution of the Republic of China in which the rights and privileges of laborers are protected and relations between labor and management defined. The articles concerned are found in Chapter VIII, Section 4, which reads:

"Article 152.—The State shall provide opportunity of employment to people who are capable of work.

"Article 153.—The State, in order to improve the livelihood of its laborers and farmers and to increase their productive technical skill, shall enact laws and carry out policies for their protection.

"Women and children engaged in labor shall, according to their age and physical condition, be accorded special protection.

"Article 154.—Capital and labor shall, on the principle of harmony and cooperation, promote productive enterprises. Mediation and arbitration of disputes between capital and labor shall be stipulated by law.

"Article 155.—The State, in order to promote social welfare, shall enforce a social insurance system. To the aged, the infirm and the crippled among the people who are unable to earn a living, and to victims of unusual calamities, the State shall extend appropriate assistance and relief."

LABOR ADMINISTRATION

The Labor Bureau of the Ministry of Social Affairs, which is the highest labor administration in China, had the following functions: (1) Manpower investigation, registration and statistics, (2) manpower requisition and classification, (3) coordination of restrictions and readjustments regarding pay scales, dismissals and employment of workers, (4) coordination or restriction of organs and public bodies that engage in the employment of workers, (5) investigation and restriction of workers employed in private households regarding number and capability, (6) enactment of plans for the mobilization of manpower, (7) promotion of labor service, (8) control of workers and employers, (9) legal protection of the interests of conscripted laborers, (10) coordination of organs in charge of mobilization of manpower, and (11) other matters pertaining to the mobilization of manpower.

Since V-J Day, the Ministry of Social Affairs has been paying particular attention to: (1) stabilization of laborers' livelihood, (2) promotion of labor-management cooperation, and (3) encouragement of labor participation in governmental affairs.

Following the abolition of the Ministry of Social Affairs in March, 1949, labor administration was transferred to the Ministry of Economic Affairs.

LABOR ORGANIZATIONS

China had in 1948, 11,522 registered labor unions with a total membership of 5,003,598 workers, as compared to 10,846 unions with 4,953,006 members in the previous year. Before the conclusion of the war in 1945, there were only 4,359 registered labor unions with a total membership of 1,552,003. Most of the unions were in the big cities.

The Chinese Federation of Labor was organized in Nanking on April 19, 1948, by 117 delegates from 36 labor unions. It represented 20 provincial, 10 municipal, and 6 regional labor unions, whose aggregate membership numbered 16,130,250. As stated in its constitution, the federation aims at increasing the knowledge and skill of workers, developing their productive capacity, safeguarding their livelihood, improving their conditions of employment, raising their status, and strengthening their relations with workers in other countries.

The following table shows the kinds and numbers of labor unions as well as their membership registered with the Ministry of Social Affairs up to the end of June, 1948:

TABLE 1.—LABOR UNIONS AND MEMBERSHIP REGISTERED WITH THE MINISTRY OF SOCIAL AFFAIRS, JUNE, 1948.

Unions	Number of Unions	Membership
Trade Federations	3	69*
Provincial (Municipal) General Labor Unions	3	156*
Hsien (Municipal) General Labor Unions	835	10,631*
Ordinary Labor Unions	**10,268**	**4,037,025**
Industrial Workers' Unions	766	892,119
Occupational Workers' Unions	9,253	2,892,660
Mixed Workers' Unions	249	252,246
Special Labor Unions	**413**	**966,573**
Postal Workers' Unions	50	20,649
Tele-communications Workers' Unions	12	7,157
Highway Workers' Unions	11	29,022
Railway Workers' Unions	11	116,060
Seamen's Unions	32	126,347
Native Junk Workers' Unions	251	262,678
Salt Workers' Unions	34	117,850
Mine Workers' Unions	10	285,709
Public Utility Workers' Unions	1	376
Other Private Transportation Workers' Unions	1	725
GRAND TOTAL	11,522	5,003,598

* Group membership not included in totals.

Source: Ministry of Social Affairs

The Trade Unions Act, which was passed by the Executive Yuan on October 21, 1929, was amended on June 13, 1947. Its main points were:

A. The functions of a trade union should include: (1) conclusion, amendment and cancellation of collective agreements; (2) establishment of employment exchanges and finding of employment for members; (3) organization of vocational institutions and other forms of training for workers; (4) settlement of disputes between its members; (5) arbitration of disputes between workers and employers; (6) investigation of economic conditions of workers' families, of methods of labor recruitment, and of unemployment, and compilation of labor statistics; (7) recommendations to administrative and legislative authorities on the drafting, amendment or repeal of labor legislation, and replies to enquiries made by these authorities;

B. The directors and supervisors of each trade union should be elected from among its members. Their terms of office are two years;

C. Every trade union should call a general meeting or a meeting of representatives at least once a year;

D. Employers are required by law to set aside funds for promoting the welfare of their employees;

E. In the event of a labor dispute, no strike should be called until mediation or arbitration efforts have failed to bring about a settlement;

F. In the event of a strike, no union should engage in acts affecting public peace and order, causing bodily injuries or property damages, or restricting the freedom of others;

G. In December each year, or whenever necessary, every trade union should submit to the competent authorities: (1) a list of names of its officers; (2) a list of its members and of those who have withdrawn from the organization; (3) a financial report; (4) a report on its activities, and (5) a report on disputes and their settlement;

H. Members and officers of a trade union should not engage in: (1) closing down factories or business establishments; (2) seizing or destroying goods and equipment of business establishments or factories; (3) seizing or assaulting workers or employers; (4) forcing management to employ only those workers they recommend; (5) bearing arms at meetings or demonstrations; (6) intimidating workers; (7) ordering their colleagues to commit sabotage or conduct similar actions; (8) arbitrarily levying fees or subscriptions;

I. The competent authorities may dissolve a union (1) if it fails to fulfill the requirements of a union; (2) if it commits a serious breach of law or order, and (3) if it engages in acts affecting public peace or order or the interests of the community;

J. A trade union may proclaim its voluntary dissolution on one of the following conditions: (1) bankruptcy; (2) insufficient membership; and (3) amalgamation or merge with another union.

WAGE STABILIZATION

The Ministry of Social Affairs began to regulate wages in December, 1940. On January 15, 1941, the Executive Yuan promulgated the *Regulations Governing the Stabilization of Wages*, which were enforced first in Chungking and later in other cities. It was ruled among other things that wages be computed on the basis of the living conditions of the workers and the price indices.

Following the adoption by the government of the *Regulations Governing the Enforcement of the Program for Strengthening Price Control* on December 17, 1942, a new set of measures for the restriction of wages was announced by the Ministry of Social Affairs in an effort to keep wages and transportation charges in line with the prevailing commodity prices. The new measures included:

(1) Pay scales prevailing on November 30, 1942, should be taken as the basis for wage adjustments;

(2) Wages should be restricted in areas where price control is in force;

(3) These wage restriction measures should apply to the following occupations and industries: Salt, edible oil, machinery, fuel, paper, printing, flour, sugar, barber shop, weaving, rickshaw and sedan chair transportation, junk transportation, carpentry, masonry and stone work;

(4) A committee should be organized in each locality to decide on wage scales. It is to be composed of representatives of the local Kuomintang headquarters, government, *San Min Chu I* Youth Corps, the chamber of comerce, the labor union and other related organs. Local administrative organs such as reconstruction departments or social affairs bureaus of provincial and *hsien* governments shall have the final authority on deciding wage scales;

(5) The organization and control of industrial, commercial, labor, and other related public bodies should be strengthened in areas where wage restriction measures are enforced; and

(6) These measures shall replace the *Regulations Governing the Stabilization of Wages.*

Efforts at wage control continued after the war. To keep up with the rising commodity prices, wages were adjusted from time to time.

Tables 2 and 3 show changes in the cost of living, the actual income and real wages of workers after V-J Day in China's big cities.

TABLE 2.—INDICES OF WORKERS' COST OF LIVING, INDUSTRIAL AND OCCUPATIONAL WORKERS' ACTUAL INCOME AND REAL WAGES IN THE BIG CITIES IN CHINA, 1946-1948 (JUNE)

Weighted Aggregative Average; First Half of 1937=100; Unit: CNC$

Locality	Cost of Living	Industrial Workers		Occupational Workers	
		Actual Income	Real Wage	Actual Income	Real Wage
1946					
Nanking	464,769	684,618	122.6	687,018	147.8
Shanghai	550,673	831,839	151.6	847,173	..
Tientsin	382,788	817,654	155.6	..	..
Tsingtao	530,378	284,717	47.4	413,686	77.9
Canton	389,981	273,799	60.5	..	..
1947					
Nanking	2,758,571	3,128,436	113.4	3,801,150	137.8
Shanghai	3,818,672	4,984,473	130.5	4,343,380	113.7
Tientsin	3,510,070	5,330,660	151.9	5,060,981	144.2
Tsingtao	4,586,615	2,632,384	57.4	2,842,331	62.0
Canton	2,830,862	1,734,874	61.3	2,231,400	78.8
1948 (January–June)					
Nanking	32,206,541	43,703,487	135.7	44,033,361	130.2
Shanghai	31,995,631	49,800,157	155.6	43,721,763	123.2
Tientsin	42,006,791	66,617,265	158.6	44,745,331	114.4
Tsingtao	53,468,019	25,342,877	47.4	35,500,890	67.9
Canton	30,960,262	34,423,124	97.6	37,962,089	115.0

Source: Ministry of Social Affairs

DISPUTES AND STRIKES

After V-J Day, the Ministry of Social Affairs laid down *Regulations Governing the Arbitration of Disputes between Labor and Capital during the Rehabilitation Period* and *Regulations Governing the Settlement of Disputes between Employees and Employers during the Rebellion-Suppression Campaign.* The regulations stipulate that an arbitration board to be composed of representatives of the local authorities, civic associations, labor and management should be set up to seek a peaceful settlement of any labor dispute. Before an arbitration board has arrived at its conclusion, no strike or lockout is to be called.

During the 1945-1948 period, out of 6,465 labor disputes, 3,527 were registered in Shanghai, affecting a total of 848,522 employees and workers. The demand for wage increases and the dismissal of laborers constituted the two main causes for the disputes.

Table 4 on page 436 shows the number of cases of labor disputes and the number of workers affected during the 1945-June, 1948 period.

LABOR PARTICIPATION IN THE GOVERNMENT

It has been the government's policy to encourage laborers to participate in government affairs. Up to the end of June, 1948, out of the 28,987 members in 1,755 people's representative councils at various levels in the country, 1,474 were labor delegates. In the National Assembly, 126 were labor representatives. There were 18 labor representatives in the Legislative Yuan.

Table 5 on page 437 shows the number of labor members in the *hsien* and municipal people's representative councils in various provinces up to the end of June, 1948.

TABLE 3.—INDICES OF WORKERS' COST OF LIVING, THEIR REAL WAGES AND THEIR ACTUAL INCOME IN CHUNGKING, WARTIME CAPITAL OF CHINA, FROM 1937 TO JUNE 1948.

Weighted Aggregative Average; First Half of 1937=100; Unit: CNC$

Period	Cost of Living	Industrial Workers		Occupational Workers	
		Actual Income	Real Wage	Actual Income	Real Wage
1937	100	..	..	103.5	101.5
1938	116	..	..	167.4	145.6
1939	192	..	..	315.0	183.1
1940	550	..	..	718.2	143.9
1941	1,842	..	..	1,650.8	92.1
1942	4,135	2,083	50.4	3,076.8	82.1
1943	11,498	4,842	42.1	7,776.6	74.2
1944	39,094	17,149	43.9	28,671.0	77.6
1945	143,806	57,721	40.1	136,212.0	107.3
1946	258,612	275,336	106.5	361,694.0	162.1
1947	1,577,908	1,812,030	114.8	1,176,899.0	87.0
1948—January	6,015,426	4,071,937	67.7	4,557,153.0	85.7
February	7,758,604	10,701,501	137.9	5,953,293.0	85.5
March	12,995,782	12,524,151	96.4	9,225,705.0	77.1
April	15,910,558	15,132,526	95.1	13,677,980.0	93.1
May	20,598,952	30,032,181	145.8	17,760,354.0	94.7
June	41,843,381	39,108,882	93.5	26,862,013.0	69.6

Source: Ministry of Social Affairs

LABOR WELFARE

Labor welfare projects adopted by the Ministry of Social Affairs fall into the following categories: (1) factory inspection, (2) labor insurance, (3) construction of social and recreation centers for the workers, and (4) miscellaneous welfare measures.

Labor legislation is something relatively new in China. The *Chinese Factory Law* was promulgated in 1929 and was revised in 1942. The *Factory Inspection Law* was passed in 1931, and amended in 1935.

On January 26, 1943, the Executive Yuan adopted the *Regulations Governing the Employees' Welfare Fund.*

The ruling specifies that a new enterprise should set aside from one to five percent of its total capital as employees' welfare fund at the time of its establishment. To finance welfare projects, the management should set aside from two to five percent of the entire monthly payroll plus allowances, while the employees, one-half of one percent of the salaries or wages plus allowances of each individual. From five to ten percent of the yearly profits and from 20 to 40% of money realized from the sale of waste materials or scraps should be devoted to promotion of welfare projects.

Trade unions are to earmark 30% of their membership fees as a welfare fund for the unemployment in their respective field. Competent authorities may grant subsidies for the promotion of labor welfare.

Special committees should be created by the factories, mines and other industrial organizations concerned to supervise the use of their respective welfare funds, and to see that the money is spent only for welfare work. Such committees should include union representatives drafted by the proper government authorities.

A fine of not more than $1,000 will be imposed upon those who do not set aside funds to promote the welfare of their employees and workers in accordance with

Table 4.—Number of Labor Disputes in Various Provinces and Municipalities During The 1945-June, 1948 Period.

Localities	Number of Cases	Number of Factories, etc. Affected	Number of Workers Affected	Duration (Number of Days)
Kiangsu	325	8,839	117,600	3,879
Chekiang	385	17,074	130,419	3,389
Anhwei	1	5	186	1
Kiangsi	64	886	10,938	461
Hupeh	90	6,783	75,035	757
Hunan	74	1,960	54,975	1,192
Szechwan	34	185	4,965	391
Sikang	..	..	..	..
Hopei	24	56	7,065	232
Shantung	6	14	1,485	68
Shansi	..	..	..	..
Honan	5	5	145	25
Shensi	24	53	13,856	115
Kansu	..	..	..	..
Chinghai	..	..	..	..
Fukien	19	249	5,375	207
Taiwan	12	22	1,736	301
Kwangtung	107	2,445	49,222	2,626
Kwangsi	51	1,614	19,558	429
Yunnan	40	309	11,450	211
Kweichow	4	147	693	26
Liaoning	5	15	5,337	33
Antung	..	..	..	..
Liaopei	..	..	..	..
Kirin	3	12	343	44
Sungkiang	..	..	..	..
Hokiang	..	..	..	..
Heilungkiang	..	..	..	..
Nunkiang	..	..	..	..
Hingan	..	..	..	..
Jehol	..	..	..	..
Chahar	2	8	212	16
Suiyuan	..	..	..	..
Ningsia	..	..	..	..
Sinkiang	..	..	..	..
Tibet	..	..	..	..
Nanking	52	5,465	20,762	690
Shanghai	3,527	43,071	848,533	*9,502
Peiping	15	169	8,041	182
Tientsin	410	2,204	66,074	5,674
Tsingtao	193	2,422	34,991	2,762
Chungking	728	8,384	182,156	7,138
Mukden	2	3	98	50
Hankow	208	21,472	164,107	1,562
Canton	55	5,075	51,637	1,278
Sian	..	..	..	..
Harbin	..	..	..	..
Dairen	..	..	..	..
	6,465	128,946	1,886,994	43,241

* The number of days affected in the 3,045 cases reported in the 1947-June, 1948 period is not included in this figure.

Source: Ministry of Social Affairs

Table 5.—Labor Representatives in *Hsien* and Municipal Councils, June, 1948

Province or Municipality	*Hsien* or Municipal People's Councils	Number of Council Members	Labor Representatives
Szechwan	143	5,385	505
Kweichow	80	1,904	83
Hunan	78	2,188	99
Shensi	79	1,208	24
Kiangsi	82	2,426	62
Ningsia	14	156	6
Shantung	110	2,040	84
Kiangsu	63	1,366	32
Chekiang	77	4,158	130
Sikang	39	434	23
Liaopei	10	290	9
Kwangsi	100	1,981	18
Fukien	69	1,294	45
Kansu	71	1,151	46
Anhwei	64	1,476	102
Kwangtung	99	1,749	34
Hupeh	71	1,367	48
Yunnan	128	981	17
Chinghai	21	341	15
Honan	111	619	43
Suiyuan	23	425	12
Shansi	106	1,519	33
Hopei	25	416	9
Liaoning	21	643	25
Taiwan	17	408	4
Sinkiang	54	298	5
Nanking	..	30	6
Shanghai	..	181	16
Chungking	..	83	8
Tientsin	..	31	5
Tsingtao	..	54	2
Peiping	..	101	7
Hankow	..	63	5
Sian	..	30	2
Mukden	..	83	10
Canton	..	..	..
Total	1,755	36,879	1,474

Source: Ministry of Social Affairs

these regulations. A fine of not more than $500 will be imposed on those who do not report to the proper government authorities on the disposition of their welfare funds. Diversion of these funds to other uses is punishable by law.

These regulations were the first of the kind adopted since the outbreak of the war in 1937. Supplementary rules have since been promulgated to ensure extensive enforcement.

By order of the Central Government, provincial and *hsien* governments as well as labor unions throughout the country have sponsored welfare projects, such as model villages for workers, schools and social centers, and medical, legal and vocational guidance.

Ministry of Social Affairs statistics showed that up to the end of June, 1948, there were 222 employees' and 129 labor union welfare committees and 260 employees' and 208 labor union welfare societies, totalling 819 organizations. The total for the previous year was 774.

Factory inspection was not placed on a nationwide scale until 1941, when the Ministry of Social Affairs came directly under the Executive Yuan. Since then the ministry has trained personnel for this work. Industrial and mining establishments in Chungking were inspected in 1942. The work was extended to both government and private factories in other parts of Szechwan in 1943, and to Kweichow, Yunnan, Kwangsi, Hunan and Shensi provinces in 1944. In the inspection, special attention was directed to sanitation, health, safety measures and general condition of the workers.

In 1943, the Ministry of Social Affairs adopted a labor insurance plan for the salt workers of northern Szechwan. Starting with 5,167 participants, this collective program was expanded to include 37,000 salt workers in the first six months of 1948. Preparations have been made to initiate accident insurance for mine workers.

CHINA AND I.L.O.

China became a member of the International Labor Organization in 1919 after she had signed the Treaty of Saint-Germain. Her filling of the permanent seat vacated by Japan's withdrawal was unanimously approved by the I.L.O.'s Governing Body in 1944. Chinese delegates have been present at all the 31 International Labor Conferences held since 1929.

In response to the International Labor Organization's endeavor to protect labor, the Chinese Government promulgated in 1923 the *Provisional Factory Regulations*. This was followed six years later, in 1929, by a comprehensive *Factory Law* which, after undergoing some minor revisions in 1942, has been in operation in the country.

Since 1928, the International Labor Office has sent officials to China on several occasions either to acquire first-hand knowledge of Chinese labor conditions or to render technical advice to its government. On the initial mission was Albert Thomas, first director of the International Labor Office. Largely through his efforts the China Branch of the I.L.O. was established in Shanghai in 1930. In 1948 Miss B. M. Power served as advisor to the Ministry of Social Affairs in technical matters concerning employment and youth training.

During the Sino-Japanese War, the I.L.O.'s China Branch was moved to Chungking. It did not return to Shanghai until May, 1946. Its director since 1938 has been Cheng Hai-feng.

The duties of the China branch are: (1) to act as a liaison agent between the Chinese Government, the employers' and workers' organizations and academic institutions, (2) to compile labor statistics, and (3) to disseminate labor information. The latest of its publications are "The International Labor Organization and China" and "The Preparatory Asian Regional Conference."

CHAPTER 18

COMMODITY PRICES

With the exception of a brief period immediately following V-J Day, commodity prices in China had been rising ever since the outbreak of the Sino-Japanese war in July, 1937. They varied with the place and the time, but all showed increases at an accelerating rate. The inflationary trends became particularly noticeable after the outbreak of the Pacific War in December, 1941.

On August 19, 1948, the government adopted a new currency, the Gold Yuan. Simultaneously it enforced severe economic control measures designed to curb hoarding and speculation. Prices, wages and service charges were all frozen at their August 19 levels.

However, with the worsening general situation, the temporary stability of the Gold Yuan was also lost through vicious inflation. On July 2, 1949, the National Government at Canton decided to enforce the second nation-wide currency reform and issued the Silver Yuan notes with 100% reserve.

Following is a review of the price movements both during the war and since the end of the war up to June, 1948.

WARTIME CONDITIONS

The second half of 1937 saw only a slight increase in commodity prices, with a general index of 110 (base period: January-June 1937), as the government had ample foreign exchange to meet the requirements of both exporters and importers. The monthly average rates of increase of wholesale and retail prices were one and 1.3% respectively. The increase was also slight from January, 1938, on to August, 1939. The general wholesale and retail indices fluctuated between 113 and 215 and between 114 and 209, respectively, with monthly average rates of increase of four and 5.5%. Bumper crops in the interior provinces were then the main deterrent to sharp increases.

The outbreak of the European War in September, 1939, cut considerably the supply of goods to China from abroad. The closure of the Burma Road by the British Government in September, 1940, further aggravated the situation. It happened that crops were poor that year. In February, 1941, the Japanese landed along the Kwangtung coast, and two months later took the Fukien ports. As a result, the indices of the wholesale and retail prices respectively jumped from 232 and 224 in August, 1939 to 1,832 and 1,898 in November, 1941. Military setbacks and Japanese air bombings were other causes for the rise.

After the bombing of Pearl Harbor the China coast was blockaded by the enemy. The price indices rose from 2,111 to 2,147 and 67,988 to 77,348 respectively, in December, 1944, with an average monthly increase of over 10%. In the winter of 1944, the Japanese forces invaded Kwangsi and Kweichow. For a while even the wartime capital, Chungking, was threatened. Prices rose at a maddening rate. During January-July, 1945, indices for wholesale prices increased from 81,425 to 235,922, while those for retail prices from 93,751 to 261,913, with an average monthly increase of 20%, the highest during the war.

POSTWAR PERIOD

Commodity prices fell sharply following the Japanese surrender in August, 1945. Between August that year, and January, 1946, retail prices fluctuated considerably, but the general trend was downward. After January, 1946, the tide turned again and the rate of increase gained. The year 1947 saw violent increases in commodity prices primarily because of the large-scale military operations necessitated by the communist rebellion. Inflation, hoarding and speculation, the concentration of idle capital in a few large cities and an unbalanced budget were all contributary causes.

The average monthly rate of increase in 1947 was 26%, as compared with 12% recorded during February-December, 1946.

The wholesale and retail indices at the end of 1947 were 10,340,000 and 10,598,400, respectively.

REGIONAL DIFFERENCES

Due to difficulties in communication and military operations, regional differences in commodity prices were rather marked. Sian led the interior cities in price increases in 1939 and 1943. This was because of the tense military situation on the Shensi-Shansi border in 1939 and a great drought in Shensi and Honan in 1943. Chengtu took over the lead in 1940-42 in the soaring of prices of metals. It also provided the highest figure for clothing material in 1941. In 1944 and 1945, Kunming had the highest figures in the country for both wholesale and retail prices. The city was then China's only link with the outside world and it was being built up as the main base for a counter-offensive. Demands were always high. In Kweiyang prices during the winter of 1944 rose about four times as compared with those of the previous year because of the congestion of refugees from Hunan and Kwangsi.

Since the end of the war, the highest price figures were registered in Taiyuan, provincial capital of Shansi. In June, 1948, prices there exceeded 2,685,550 times those of the prewar period. Rapid increases were also reported in Peiping, Tientsin, Hofei, Tsinan, Tsingtao, Sian, Kalgan, Kaifeng, Nanking, Shanghai, Nanchang, Hankow, Hangchow, and Foochow. Places having somewhat slower rates of increase were Kweiyang, Chungking, Kunming, Chengtu, and Kweilin. In Taiwan, conditions are slightly different. In June, 1948, prices were 1,539 times those of the base period.

CONTROL MEASURES

Price control measures were adopted shortly after the war began in 1937. In May, 1942, the *National General Mobilization Act* was enforced, intensifying the controls. The restriction of prices was further strengthened upon the adoption on February 15, 1945, of the *Regulations Governing the Restriction and Evaluation of Commodity Prices.**

Following the adoption of the Gold Yuan currency system in August, 1948, the Executive Yuan promulgated on September 15, 1948, a set of practical measures for the application of the foregoing regulations modified to meet changed conditions. These measures fixed the prices prevailing on August 19, 1948, as the ceilings.

The full text of the measures is as follows:

(1) All municipalities and *hsien* of the country shall serve as areas for the enforcement of the restrictions and the evaluation of commodity prices.

(2) The competent authorities of the various localities shall fix the prices which prevailed in their respective local open markets on August 19, 1948, and convert them into Gold Yuan according to the rate of conversion.

The competent authorities may, taking into consideration the actual local factors of demand and supply, designate certain commodities for control.

(3) The provisions of the preceding article shall also apply to such businesses as hotels, restaurants, bath houses, barber shops, tailer shops, clearing and dying establishments, transportation concerns, clinics, hospitals, theaters and cinemas.

(4) Prices covered by Articles 2 and 3, when readjustment is warranted, except where otherwise provided, may be equitably readjusted by the Commodity Prices Evaluation Committee, which shall be organized by competent local authorities, in accordance with provisions of the Enforcement Measures for the Evaluation of Commodity Prices. These new prices are subject to the approval of competent local authorities and must be reported to the higher authorities for record.

Prices readjusted before August 19, 1948, which are too high may be re-evaluated and reduced by competent local authorities according to provisions of the preceding paragraph.

(5) Beginning August 19, 1948, any of the following shall be regarded as a price violation:

(a) Any commodity price which is higher than that which prevailed on August 19, 1948, and not approved by competent local authorities.

(b) Any change in name, quality or quantity of commodity whose price has been fixed in accordance with the standard of August 19, 1948. Any price change into Gold Yuan not in accordance with the rate of conversion or any secret sale at higher prices.

(c) Any other offense contrary to the measures for the restriction and evaluation of commodity prices.

* For details of measures for price stabilization during the war years, see CHINA HANDBOOK, 1937-1945.

(6) The norm for Paragraphs 2 and 3 of Article 6 of the Regulations Governing the Restriction and Evaluation of Commodity Prices shall be changed to GY$500. Any violation of these rules involving over GY$500, whether it be a business transaction, wage or transportation charge, shall be dealt with in accordance with the provisions in Paragraph 2. Any such offense involving less than GY$500 shall be penalized in accordance with provisions of Paragraph 3.

(7) Fifty percent of the fines so collected, except for those imposed by judicial organs according to law, shall be used as rewards, and the remaining 50% shall be turned over to the local treasury.

(8) Competent local government offices responsible for the carrying out of these price controls shall be the Bureaus of Social Affairs of the Municipalities under the Executive Yuan, the provincial capitals and the *hsien* government in cooperation with their respective security and police organs.

However, under heavy public pressure, the government was compelled to lift its price controls on November 1, 1948. (For details, see chapter on "Currency.")

TABLE 1.—INDEX NUMBERS OF WHOLESALE PRICES, 1937-47
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Year	General Index	Food	Clothing	Fuel	Metals	Building Materials	Miscellaneous
1937	103	100	107	103	109	104	103
1938	131	108	160	131	167	141	164
1939	220	163	308	284	305	227	240
1940	513	406	763	629	732	453	486
1941	1,296	1,170	1,720	1,374	1,844	1,108	1,152
1942	3,900	3,254	5,527	4,347	5,760	3,167	3,704
1943	12,541	9,425	23,633	14,247	17,354	10,152	11,556
1944	43,197	34,808	77,059	47,621	50,446	30,628	43,227
1945	163,160	149,245	231,657	184,948	183,870	117,373	146,717
1946	378,539	351,363	496,411	494,504	358,537	340,419	319,523
1947—January	755,000	696,915	981,952	1,024,732	715,598	713,214	613,550
February	1,102,885	990,444	1,362,448	1,442,514	1,144,775	975,686	999,977
March	1,219,439	1,054,556	1,448,740	1,599,890	1,391,490	1,156,246	1,138,020
April	1,390,200	1,221,856	1,757,500	1,696,500	1,626,975	1,265,100	1,243,260
May	1,968,567	1,851,569	2,321,186	2,133,491	2,194,320	1,611,870	1,720,600
June	2,483,000	2,343,900	3,165,600	2,694,600	2,684,000	2,017,000	2,221,700
July	3,122,400	2,755,200	4,098,100	3,567,400	3,433,300	2,941,300	2,909,500
August	3,439,200	3,146,400	4,232,400	4,144,600	3,989,200	3,103,900	3,317,400
September	3,836,800	3,473,400	5,208,500	4,757,300	4,490,800	3,503,000	3,795,100
October	5,931,300	4,903,300	8,296,100	7,274,500	7,193,800	5,088,700	5,631,400
November	7,686,500	6,234,200	10,482,000	9,961,300	9,961,300	6,704,200	7,313,500
December	10,340,000	8,647,400	13,782,400	12,025,900	13,515,000	9,104,330	9,606,300

Source: Ministry of Budgets, Accounts and Statistics

TABLE 2.—INDEX NUMBERS OF RETAIL PRICES, 1937-47
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Year	General Index	Food	Clothing	Fuel	Miscellaneous
1937	103	101	107	105	105
1938	130	115	156	138	140
1939	213	175	295	220	243
1940	503	416	725	538	532
1941	1,294	1,168	1,718	1,241	1,249
1942	4,027	3,072	6,023	4,080	4,242
1943	14,041	9,582	25,539	14,050	14,330
1944	48,781	35,639	90,200	51,945	52,572
1945	190,723	158,780	299,323	241,521	184,455
1946	425,487	374,512	563,482	520,453	373,821
1947—January	846,333	734,947	1,162,075	1,116,905	715,482
February	1,219,224	1,041,343	1,620,906	1,545,540	1,159,649
March	1,322,008	1,117,960	1,679,554	1,730,100	1,326,573
April	1,471,260	1,265,348	1,926,700	1,822,800	1,420,365
May	2,097,700	2,083,500	2,630,027	2,362,980	1,923,535
June	2,638,800	2,409,400	3,319,190	2,932,800	2,436,210
July	3,325,500	2,880,100	4,333,600	3,840,800	3,190,800
August	3,672,100	3,249,000	4,549,900	4,295,400	3,520,300
September	4,252,800	3,669,000	5,561,500	4,743,400	4,081,600
October	6,133,500	5,045,100	8,781,900	8,081,400	5,836,600
November	7,864,400	6,422,900	11,136,600	10,597,500	7,573,300
December	10,598,400	8,876,100	14,615,000	13,988,000	9,974,300

Source: Ministry of Budgets, Accounts and Statistics

TABLE 3.—INDEX NUMBERS OF WHOLESALE AND RETAIL PRICES IN SEVEN CITIES DURING THE WAR (JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Cities	1937	1938	1939	1940	1941	1942	1943	1944	1945
	Wholesale Prices								
Chungking	101	126	220	569	1,576	4,408	13,298	43,050	150,195
Chengtu	103	128	225	665	1,769	4,559	14,720	56,965	170,379
Kangting	104	137	225	587	1,352	4,388	12,982	49,229	171,053
Sian	105	146	245	497	1,270	4,120	16,279	39,676	155,341
Lanchow	107	146	217	399	1,061	2,853	10,047	26,533	88,655
Kunming	..	..	..	..	..	..	..	63,203	305,711
Kweiyang	98	105	187	413	969	3,395	9,428	34,940	167,025
	Retail Prices								
Chungking	102	122	203	548	1,467	4,248	13,337	45,840	177,647
Chengtu	103	125	214	615	1,735	4,720	16,416	66,351	214,353
Kangting	107	135	243	690	1,644	5,539	18,925	62,830	92,708
Sian	104	142	221	417	1,135	3,994	16,136	40,305	157,169
Lanchow	105	140	204	373	762	2,592	8,693	26,241	96,198
Kunming	..	..	..	..	..	..	..	74,232	345,912
Kweiyang	100	105	194	448	1,029	3,711	11,088	45,546	239,181

Source: Ministry of Budgets, Accounts and Statistics

TABLE 4.—INDEX NUMBERS OF WHOLESALE PRICES IN EIGHT CITIES, 1946-47 (JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Month	Nanking	Shanghai	Peiping	Tientsin	Tsingtao	Chungking	Hankow	Canton
1946—January	170,158	160,315	149,055	134,265	174,272	209,561	260,881	214,827
February	252,167	273,550	232,472	234,404	217,821	225,806	307,336	239,067
March	345,269	344,383	279,661	277,525	269,644	235,728	379,160	269,481
April	364,133	325,986	281,862	278,888	321,157	248,296	415,027	310,899
May	420,800	360,485	379,183	362,095	438,730	252,406	465,544	333,048
June	472,978	378,217	430,830	419,200	491,010	256,963	481,680	331,370
July	470,900	403,982	480,567	425,088	551,640	273,325	480,578	365,320
August	471,989	439,300	483,978	463,699	570,600	263,250	465,850	408,987
September	522,813	503,122	551,514	559,843	644,650	315,515	510,333	465,036
October	621,071	612,071	638,628	665,620	735,100	357,322	613,229	539,818
November	658,971	626,614	676,050	724,100	806,750	390,652	778,700	527,244
December	720,133	681,563	711,543	740,983	889,840	451,035	718,017	561,091
1947—January	842,480	817,750	842,480	834,587	1,017,955	525,300	791,660	645,916
February	1,282,353	1,309,848	1,267,912	1,264,554	1,565,427	722,986	1,304,364	1,111,674
March	1,363,290	1,386,593	1,428,567	1,419,939	1,837,410	770,105	1,468,333	1,160,536
April	1,621,259	1,669,900	1,579,417	1,721,433	2,199,579	780,567	1,667,885	1,311,971
May	2,417,500	2,584,000	2,893,467	2,673,396	3,090,214	987,186	2,182,400	1,883,607
June	2,881,400	2,905,000	3,311,846	3,172,826	3,789,667	1,334,382	2,727,133	2,367,401
July	3,451,151	3,359,400	4,014,909	3,778,015	4,619,111	1,986,593	3,259,286	2,658,501
August	3,511,083	3,649,300	4,165,140	3,936,743	5,295,125	2,219,269	3,769,364	3,666,973
September	4,361,642	4,635,700	4,905,881	4,574,905	6,304,000	2,590,240	4,500,200	4,169,327
October	6,721,869	7,293,400	6,796,571	6,494,190	9,068,800	3,872,665	6,745,286	5,520,741
November	8,328,562	8,261,300	8,402,200	8,158,881	10,729,756	4,958,040	8,140,833	7,256,009
December	10,400,400	10,063,000	12,269,714	12,100,259	13,672,500	6,407,078	10,247,381	9,419,215

Source: Ministry of Budgets, Accounts and Statistics

TABLE 5.—INDEX NUMBERS OF RETAIL PRICES IN EIGHT CITIES, 1946-47
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Month	Nanking	Shanghai	Peiping	Tientsin	Tsingtao	Chungking	Hankow	Canton
1946—January	179,332	171,838	164,741	133,357	186,626	257,537	273,300	286,814
February	268,317	281,425	255,788	222,165	245,972	274,612	319,131	300,083
March	346,120	400,709	309,243	209,922	290,840	278,304	389,342	340,097
April	367,071	396,373	315,050	271,626	324,840	787,892	426,730	499,451
May	424,610	452,490	418,464	371,288	452,450	286,147	470,556	442,207
June	497,771	492,478	486,067	447,796	488,111	294,252	509,756	430,355
July	485,256	536,463	545,600	475,213	581,340	299,109	516,133	469,371
August	497,114	566,700	558,486	526,353	636,133	323,683	527,156	533,452
September	566,750	679,286	650,414	635,989	720,267	355,697	553,988	595,256
October	678,983	795,113	750,483	721,763	805,008	401,726	662,533	668,444
November	697,600	793,267	775,400	755,541	858,740	440,129	731,017	641,056
December	745,967	865,540	802,033	771,232	919,900	507,598	759,050	674,665
1947—January	890,920	1,048,500	948,240	872,972	1,925,791	592,120	847,780	765,059
February	1,345,240	1,533,400	1,413,516	1,320,724	..	763,793	1,450,767	1,286,047
March	1,408,935	1,580,400	1,550,143	1,472,516	1,987,500	782,060	1,556,643	1,327,796
April	1,652,885	1,030,800	1,838,956	1,720,735	2,181,526	793,725	1,759,583	1,506,226
May	2,483,706	2,676,000	3,085,786	2,693,919	3,156,000	1,056,672	2,414,167	2,106,727
June	2,944,333	3,077,200	3,580,462	3,217,706	3,775,273	1,372,587	2,824,125	2,707,368
July	3,472,917	3,739,800	4,348,200	3,971,115	4,557,444	2,015,069	3,436,846	3,277,035
August	3,670,818	4,004,600	4,430,000	4,215,044	5,275,375	2,237,639	3,913,636	4,267,272
September	4,396,732	5,160,700	5,302,250	4,785,933	6,439,857	2,625,004	4,944,000	4,881,188
October	6,875,749	7,836,500	6,980,667	6,431,660	9,530,600	3,897,266	7,114,667	6,212,594
November	8,127,370	8,670,200	8,694,400	7,773,064	11,058,000	4,978,174	8,253,200	7,944,051
December	10,050,553	10,745,000	13,025,758	11,760,767	14,312,333	6,458,773	10,521,707	10,572,556

Source: Ministry of Budgets, Accounts and Statistics

TABLE 6.—INDEX NUMBERS OF WHOLESALE PRICES IN JANUARY-JUNE, 1948
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Month	General Index	Food			Clothing	Fuel	Metals	Building Materials	Miscellaneous
		Provisions	Grains	Others					
January	13,790,500	12,476,200	12,582,600	12,402,500	16,721,000	14,664,400	17,227,400	12,175,000	12,871,200
February	18,440,400	17,724,000	18,553,000	17,012,000	20,999,000	18,704,000	21,522,300	15,489,000	17,356,000
March	30,155,000	28,426,000	31,576,000	25,934,000	35,963,000	29,992,000	34,844,000	26,577,000	28,701,000
April	39,553,000	36,062,000	37,992,000	34,856,000	48,352,000	39,651,000	45,427,000	38,123,000	37,579,000
May	53,969,000	52,218,000	54,972,000	50,297,000	66,284,000	53,043,000	61,814,000	47,660,000	47,632,000
June	102,210,000	96,279,000	101,960,000	89,730,000	136,328,000	100,738,000	100,894,000	86,258,000	91,569,000

Source: Ministry of Budgets, Accounts and Statistics

TABLE 7.—INDEX NUMBERS OF RETAIL PRICES IN JANUARY-JUNE, 1948
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

Month	General Index	Food			Clothing	Fuel	Miscellaneous
		Provisions	Grains	Others			
January	14,322,200	12,841,000	12,883,000	12,890,200	17,914,000	16,895,500	13,328,500
February	19,329,000	18,377,000	19,037,000	17,989,000	22,732,000	20,847,500	17,985,500
March	31,155,000	28,620,000	31,990,000	27,001,000	37,325,000	32,440,000	30,350,000
April	40,822,000	37,152,000	38,690,000	36,465,000	50,539,000	42,816,000	40,443,000
May	56,438,000	53,639,000	55,437,000	52,780,000	68,294,000	56,446,000	51,896,000
June	108,160,000	98,980,000	103,152,000	96,915,000	141,400,000	112,429,000	99,208,000

Source: Ministry of Budgets, Accounts and Statistics

TABLE 8.—INDEX NUMBERS OF WHOLESALE PRICES IN 30 CITIES IN JANUARY-JUNE, 1948
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

	January	February	March	April	May	June
Nanking	14,249,839	19,932,417	34,084,740	41,225,886	55,299,346	109,471,234
Shanghai	13,845,000	18,650,000	32,082,000	37,906,000	51,247,000	107,810,000
Peiping	16,300,000	20,988,500	32,761,428	42,697,000	64,292,857	133,293,939
Tientsin	15,435,326	19,289,147	32,925,659	42,835,911	63,342,324	127,825,735
Tsingtao	19,433,913	28,686,667	43,239,000	59,112,857	80,587,333	137,784,375
Chungking	8,575,314	10,754,248	18,783,216	24,677,432	31,389,181	61,981,200
Mukden	2,778,992	3,222,676	3,846,773	6,781,977	12,264,490	22,140,301
Sian	15,696,786	18,968,261	27,198,125	37,083,333	57,488,571	113,125,641
Canton	12,413,616	18,177,866	29,172,725	40,284,833	59,678,500	93,270,304
Hankow	12,880,909	18,740,870	34,259,231	44,727,000	59,140,000	115,921,053
Chinkiang	15,164,364	20,902,731	34,419,205	42,317,794	57,660,184	98,743,400
Hangchow	13,777,500	18,624,300	30,926,443	38,468,035	50,856,918	122,481,356
Hofei	20,380,516	27,145,763	47,280,652	60,124,306	80,013,091	131,413,595
Nanchang	12,627,000	18,717,000	31,897,000	40,736,000	59,297,000	108,850,000
Changsha	11,157,000	15,554,000	26,741,000	37,256,000	51,477,000	84,314,000
Chengtu	9,996,000	12,542,671	19,244,208	25,313,953	35,640,189	73,974,153
Kangting	13,155,845	15,208,461	21,743,508	37,937,781	45,636,179	96,938,295
Tsinan	13,730,000	20,103,000	30,575,000	38,375,000	55,660,000	118,550,000
Taiyuan	34,498,150	38,140,772	67,167,531	101,515,397	134,572,142	268,555,031
Kaifeng	15,025,820	18,188,067	37,625,362	44,588,588	53,438,383	..
Lanchow	14,424,500	16,700,900	24,106,300	30,089,900	52,966,300	93,473,800
Foochow	14,297,013	20,379,484	33,103,664	43,314,250	55,163,628	105,578,956
Kweilin	8,576,100	12,823,012	21,287,274	29,773,507	44,712,611	63,876,060
Kunming	9,252,164	12,318,966	19,641,543	22,834,095	36,866,373	78,534,127
Kweiyang	6,767,373	9,763,268	15,661,545	19,665,268	27,942,677	47,770,505
Kweisui	17,490,700	20,924,760	30,444,000	38,668,182	54,321,250	99,277,500
Chengteh	17,505,800	22,568,609	28,644,722	38,287,149	52,727,213	148,084,710
Yinchwan	24,225,400	30,598,100	41,068,800	67,424,600	102,178,000	134,741,000
Kalgan	20,083,991	25,717,012	35,266,837	46,563,301	72,649,750	156,591,942
Taipeh	106,545	120,831	138,653	143,747	146,639	153,943

Source: Ministry of Budgets, Accounts and Statistics

TABLE 9.—INDEX NUMBERS OF RETAIL PRICES IN 30 CITIES IN JANUARY-JUNE, 1948
(JANUARY-JUNE 1937=100; SIMPLE GEOMETRIC AVERAGE)

	January	February	March	April	May	June
Nanking	13,826,427	19,653,502	31,941,846	38,569,143	52,948,049	102,283,962
Shanghai	15,322,000	21,223,000	34,201,000	40,499,000	56,295,000	110,380,000
Peiping	17,803,750	23,092,632	35,478,333	44,232,000	68,755,714	141,387,097
Tientsin	16,127,595	20,316,771	31,813,504	40,818,075	60,687,225	125,702,957
Tsingtao	20,642,857	31,025,714	45,684,444	60,121,429	83,695,000	147,058,621
Chungking	8,738,562	10,997,147	19,016,035	25,864,256	33,260,595	66,291,831
Mukden	3,980,203	4,852,638	5,877,622	11,745,401	21,315,245	37,791,687
Sian	14,686,897	18,340,417	27,010,588	36,830,833	56,475,714	110,587,500
Canton	13,923,023	21,414,547	32,875,962	45,173,188	68,394,422	103,001,161
Hankow	13,023,548	20,958,000	36,457,000	45,527,000	60,454,286	118,527,778
Chinkiang	15,067,365	21,003,874	35,361,870	43,146,069	59,248,384	104,171,500
Hangchow	14,411,195	19,559,601	30,804,206	37,682,526	49,941,322	122,087,163
Hofei	19,389,509	25,646,000	45,690,947	55,857,821	78,261,455	133,981,790
Nanchang	12,079,000	18,359,000	29,644,000	38,961,000	59,040,000	102,760,000
Changsha	12,071,000	16,918,000	27,848,000	38,597,000	54,527,000	88,523,000
Chengtu	9,964,144	12,613,465	19,370,917	25,497,641	35,793,983	77,907,625
Kangting	13,857,876	15,914,621	22,931,704	41,655,857	52,018,892	112,805,870
Tsinan	15,809,000	23,306,000	37,869,000	46,655,000	63,663,000	142,470,000
Taiyuan	38,707,659	44,011,343	82,759,755	120,745,988	158,416,605	319,762,354
Kaifeng	14,949,787	18,833,437	37,138,837	42,604,382	53,608,346	..
Lanchow	13,740,800	16,527,600	24,049,200	30,100,900	50,789,000	88,489,100
Foochow	15,336,640	20,786,206	32,925,212	44,586,092	58,249,851	111,008,338
Kweilin	8,611,326	13,415,600	22,302,831	30,420,756	47,330,388	67,243,463
Kunming	10,639,044	14,268,566	22,879,379	26,803,099	42,891,802	90,653,125
Kweiyang	7,750,613	10,958,495	16,985,051	20,796,268	30,497,559	56,808,250
Kweisui	18,330,000	22,085,000	32,254,615	41,526,000	59,228,571	106,321,951
Chengteh	21,292,855	27,603,650	33,988,945	44,915,588	69,174,095	184,639,830
Yinchwan	22,041,731	28,946,300	38,626,800	62,866,100	94,550,000	123,847,000
Kalgan	18,975,550	24,105,961	36,118,975	46,012,862	72,647,983	155,305,663
Taipeh	97,487	114,094	133,516	141,532	144,139	148,665

Source: Ministry of Budgets, Accounts and Statistics

CHAPTER 19

PUBLIC FINANCE

The seriousness of China's postwar financial situation has been reflected in the runaway inflation and the ever-widening gap between the government's receipts and expenditures. Though budgetary deficits had existed before 1937, the year the Sino-Japanese war broke out, and had averaged as much as 30% of the annual budget, they never reached such staggering proportions as in the years immediately before and after V-J Day.

O. K. Yui, then Minister of Finance, told the National Assembly on April 13, 1948, that the budgetary deficit in 1945 was over CNC$1,000-billion; 1946, over CNC$4,300-billion; and 1947, over CNC$27,000-billion. The sharp increase in deficit in each subsequent year showed the extent of inflation reached by the *fapi*,* the old legal tender notes.

Later, the Gold Yuan underwent similar inflation.

The steady deterioration in China's finances had both remote and immediate causes. It must be remembered that the Chinese economy was never quite sound even before the Sino-Japanese War, as there had been a perennial unfavorable balance of international payments. After eight years of war, that feeble economy was more precarious than ever.

Moreover, the sudden termination of hostilities caught the Chinese government unprepared to cope with problems of reconversion from war to peace which entailed relief, rehabilitation, demobilization and the return of the government machine from Chungking to Nanking.

But the most important cause of the government's financial straits was the communist rebellion. During the first year and a half after V-J Day, the prolonged peace negotiations between the government and the Communist party rendered it impossible for the former to reduce its armed forces as it had originally planned. Especially in the northern and northeastern provinces, the government had to maintain large armed forces to forestall the latter's expansion. This meant great outlays of military expenses.

When the peace negotiations finally broke down, the Chinese Communists had already built up a greater army than ever before. Finally their open rebellion left the government no choice but to act by force.

While the campaign against the communist rebellion itself has been a most costly operation, communist destruction of lines of communications, especially railways and tele-communications, and the government's efforts to repair them caused much waste of money, materials which were mostly imported, and manpower. In disrupting the flow of goods within the country, the communists made the economic situation even worse.

The communist destruction to lines of communications was so extensive that the following statistics compiled by the Ministry of Communications up to the end of 1947 alone are revealing:

Telegraph-line in the Northeast	6,281 km.
Telegraph-line in north China	4,806 "
Telegraph-line in central China	1,922 "
Rails in north China	3,734 "
Rails in Northeast (1946 alone)	699 "
Bridges in north China	2,868
Bridges in Northeast	506
Railroad stations in north China	409
Railroad stations in Northeast	215

The above figures show only what were completely destroyed, and do not show the number of times that railways and railway bridges were damaged and telegraph lines were cut. In most instances destruction was followed by repairing, usually in record time. This involved huge outlay of money, material and manpower. During the two years of 1946 and 1947, railways, railway bridges and telegraph lines in north China and the northeast were destroyed and cut respectively 1,492, 1,420, and 3,094 times.

* *Fapi* means legal tender, then Chinese National Currency.

The spread of the communist rebellion over wide areas of the country greatly affected production and distribution of farm products, raw materials and manufactured goods. As a result commodity prices in cities reached unprecedented heights. This situation of scarcity-rising-prices-inflation, once set in motion, multiplied with accelerated velocity, and created new abnormalities that added momentum to the inflationary spiral.

Meanwhile, the government was compelled to spend bigger and bigger sums of money, at a time when its income was decreasing. Not wishing further to stimulate commodity prices, it had refrained from increasing the rates of public utilities and government operated railroads, postal and telegraph services as the rising prices would have warranted. To keep them going, however, they had to be subsidized heavily. For the same reason the government did not raise the rates of various revenues and taxes promptly after each major price movement.

The low rates of taxes and charges of government-operated services can be seen from the following facts. On the eve of the currency reform of August 19, 1948, the charge for a first class railroad sleeper ticket from Nanking to Shanghai, 311.04 km., was CNC$17-million. Calculated on the basis of commodity prices, this was about US$1.50. An ordinary air-mail letter within China was charged CNC$115,000. The salt tax was collected at CNC$450,000 per 50 kilograms. Before 1937, the corresponding charges were CNC$0.35 and CNC$6.

Self-imposed unrealistic rates on public utilities and government enterprises and low taxation scales were not the main reasons for the decline of the government's receipts. To evade the strict control of foreign exchange and import and export trade, there has been extensive smuggling in and out of the country. In the case of other sources of revenue, the returns were drastically curtailed as a result of communist expansion.

To meet ever-mounting expenditures with decreasing revenue the only emergency measure possible would be to print more money. That was what occurred in China before the recent currency reform.

In 1948 the government grappled with its financial problems by reducing expenditures to the minimum on the one hand and by tapping new sources of revenue on the other. Superfluous and overlapping government organizations were abolished, and the personnel of existing ones were considerably reduced.

In tapping new sources of revenue the government tried to increase receipts by overhauling the tax-collecting machinery and by readjusting the tax rates upward.

The total returns of land, commodity and salt taxes and customs levies were CNC$118,300-million in 1945, CNC$1,267,700-million in 1946 and CNC$20,631,700-million in 1947. The total returns of these sources of revenue for the first half of 1948 were estimated at CNC$40,000-billion.

August 19, 1948 was an important date in the history of Chinese public finance. On that day, a new currency, the Gold Yuan notes, was announced. It was a major monetary change, but it was also an over-all financial reform, whereby the government hoped to stabilize the nation's economy and balance the nation's budget.

Due to continued warfare, however, this attempt failed after two months of short success. Inflation returned and commodity prices soared again. On July 2, 1949, the National Government at Canton had to enforce a second nation-wide currency reform by adopting the Silver Dollar system in the hope of stabilizing national economy.

The government's budget for the second half of 1948 showed deficit, but as military and emergency expenditures were not published, the actual amounts could not be ascertained.

Since 1937 the Chinese government has been in a constant struggle to make both ends meet.

In January, 1937, the government announced that the budget for the year would be CNC$1,000,649,496. China's fiscal year then was from July till the end of the next June.

The emergency expenses occasioned by the war forced the government to revise the budget five times during the year, and increased the annual total expenses of the government to CNC$1,511,293,184.75. Almost the entire budgetary deficit of the year, $495,936,228.71, was made up by government loans.

Beginning in 1939, China's fiscal year was made to coincide with the calendar year. Therefore, a half-year budget was prepared for the second half of 1938, from July till the end of the year.

The table on the following page shows the Chinese government's annual deficits from 1938 to 1946.

The government's budget for 1947 showed on paper a clear deficit of over CNC$2,286,600,000. But actually, the year's total deficit was far greater than

TABLE 1—ANNUAL DEFICITS

Year	Total Budget	Deficit
1938 (July–Dec.)	CNC$ 1,293,588,753.00	CNC$ 437,176,053.00
1939 (Jan.–Dec.)	2,118,084,120.00	412,688,281.00
1940	3,107,235,403.31	619,160,718.31
1941	10,732,583,783.64	..
1942	28,283,312,283.16	10,972,693,940.16
1943	57,406,556,045.55	21,170,142,184.55
1944	148,739,642,733.63	69,238,210,925.63
1945	1,363,576,911,772.51	1,099,732,727,872.51
1946	2,524,934,725,000.00	..

SOURCE: Ministry of Finance

NOTE: The 1938 to 1945 total budgets include the deficits.

THE BUDGET OF 1947

A. GOVERNMENT REVENUES

(I)	Taxes:	
	1. Land taxes	CNC$ 264,127,100,000
	2. Direct taxes	943,000,000,000
	3. Commodity taxes	1,217,621,700,000
	4. Mining taxes	30,000,000,000
	5. Customs duties	621,430,000,000
	6. Salt tax	535,000,000,000
(II)	Profits and incomes of government enterprises:	
	7. From government banks and the Central Trust of China	150,522,000,000
	8. From the China Textile Industries Corp.	410,006,000,000
	9. From the National Resources Commission	30,000,000,000
	10. From navigation, railway, air, and land transportation enterprises under the Ministry of Communications	187,092,000,000
	11. From other Government enterprises	16,541,000,000
(III)	Proceeds from the sale of government assets and goods:	
	12. Enemy properties	800,000,000,000
	13. U. S. Army surpluses	1,100,000,000,000
	14. Gold and foreign exchange	350,000,000,000
	15. Surplus foodstuffs and government scraps	50,000,000,000
(IV)	Taxation in kind and food requisitions:	
	16. Levy of land taxes in kind and food requisitions	220,800,000,000
(V)	17. Fines, reparations, fees, interests on government assets, and contributions	107,156,870,000
	Total	CNC$7,033,296,670,000

B. GOVERNMENT EXPENSES

(I)	National defense and related matters (Not including CNC$1,200-billion for military reconversion expenses)	CNC$3,813,521,000,000
(II)	Communications, natural resources, water conservancy, agriculture and forestry, national health, and land administration	1,553,386,000,000
(III)	Relief and rehabilitation	1,422,322,000,000
(IV)	Government administrative expenditures including the expenses of the five yuan and their subordinate ministries	876,500,000,000
(V)	Subsidies including those to provincial and municipal governments	651,523,000,000
(VI)	Education and cultural matters	342,181,000,000
(VII)	Loan services	256,109,000,000
(VIII)	Pensions and compensations for public functionaries	404,500,000,000
	Total	CNC$9,320,042,000,000

that. Though the exact figure was unavailable, the Ministry of Finance revealed that repeated readjustments of the year's government expenses boosted the total budgetary deficit to well over CNC$32-trillion.

THE BUDGET OF 1948

BUDGET OF THE FIRST HALF OF 1948

For the first six months of 1948, the government's budget showed a deficit of CNC$37,935,703,440,000. The total government expenses had been estimated at CNC$96,276,600,410,000, and the total receipts from all revenues at CNC$58,340,896,970,000. The following tabulates the first half-year budget for 1948 as approved by the Legislative Yuan:—

A. ORDINARY GOVERNMENT REVENUES

1.	Commodity tax (36.776% of total government income)	CNC $9,788,000,000,000
2.	Income taxes (18.862%)	5,020,000,000,000
3.	Salt taxes (15.029%)	4,000,000,000,000
4.	Fees (2.898%)	771,000,000,000
5.	Sales tax (2.818%)	750,000,000,000
6.	Customs duties (16.532%)	4,400,000,000,000
7.	Profits of government enterprises (1.505%)	400,000,000,000
8.	Miscellaneous (1.247%)	331,900,000,000
9.	Mining taxes (0.797%)	212,000,000,000
10.	Fines and reparations (0.624%)	166,100,000,000
11.	Sale proceeds of government assets (0.476%)	126,700,000,000
12.	Inheritance taxes (0.113%)	30,000,000,000
13.	Accrued interests on government properties (0.009%)	16,000,000,000
14.	Contributions and donations (0.060%)	2,500,000,000
15.	Incomes of government enterprises (0.002%)	600,000,000
	Total	CNC$26,014,800,000,000

B. SPECIAL GOVERNMENT INCOMES

1.	Loans (54.457% of total of such incomes)	CNC$37,935,000,000,000
2.	Sale proceeds of government assets and goods (23.686%)	16,500,000,000,000
3.	Proceeds from government enterprises (6.529%)	4,548,300,000,000
4.	Customs duties (3.155%)	2,197,500,000,000
5.	Levies of taxes in kind and food requisitions (3.043%)	2,120,000,000,000
6.	36th Year (1947) U. S. Currency Treasury Notes (2.957%)	2,060,000,000,000
7.	Excessive profits tax (2.297%)	1,600,000,000,000
8.	Land taxes (1.823%)	1,270,000,000,000
9.	Income taxes (1.436%)	1,000,000,000,000
10.	Business taxes (0.617%)	430,000,000,000
	Total	CNC$69,660,800,000,000

C. ORDINARY GOVERNMENT EXPENDITURES

1.	Ministry of Defense* (41.53% of such entire expenditures)	CNC$11,054,200,000,000
2.	Loan services (14.737%)	3,922,200,000,000
3.	Education (10.893%)	2,899,200,000,000
4.	Ministry of Finance* (9.401%)	2,502,200,000,000
5.	Ministry of Food* (7.792%)	2,121,800,000,000
6.	Ministry of Justice* (5.156%)	1,372,300,000,000

C. Ordinary Government Expenditures—(Continued)

7.	Secondary budget reserve (2.59%)	689,700,000,000
8.	Ministry of Interior* (1.270%)	338,100,000,000
9.	Ministry of Communications* (1.266%)	337,100,000,000
10.	Ministry of Water Conservancy (0.62%)	166,800,000,000
11.	Ministry of Agriculture and Forestry* (0.491%)	130,700,000,000
12.	Ministry of Land* (0.474%)	126,200,000,000
13.	The National Government* (0.444%)	118,200,000,000
14.	Ministry of Health* (0.433%)	115,300,000,000
15.	Ministry of Social Affairs* (0.429%)	141,100,000,000
16.	Ministry of Foreign Affairs* (0.405%)	107,700,000,000
17.	Ministry of Economic Affairs* (0.314%)	83,500,000,000
18.	Ministry of Audit* (0.296%)	78,700,000,000
19.	Executive Yuan* (0.243%)	64,600,000,000
20.	Administrative expenses (0.202%)	58,300,000,000
21.	Examination Yuan* (0.186%)	49.400,000,000
22.	Control Yuan* (0.124%)	33,000,000,000
23.	Judicial Yuan* (0.298%)	26,100,000,000
24.	Mongolian-Tibetan Affairs Commission* (0.094%)	24,900,000,000
25.	National Resources Commission* (0.086%)	22,800,000,000
26.	Legislative Yuan* (0.073%)	19,400,000,000
27.	Pensions of civil servants (0.085%)	22,700,000,000
28.	Overseas Chinese Affairs Commission (0.072%)	19,200,000,000
29.	Subsidies (0.005%)	1,200,000,000
	Total	CNC$26,646,600,000,000

* Including subordinate organizations.

D. Special Government Expenditures

1.	Living allowance readjustments and similar allowances (45.963% of total special expenditures)	CNC$32,000,000,000,000
2.	Ministry of Defense (31.965%)	22,267,200,000,000
3.	Ministry of Food (5.579%)	3,886,600,000,000
4.	Ministry of Communications (5.828%)	4,059,800,000,000
5.	Provincial and municipal subsidies (4.195%)	2,922,400,000,000
6.	Relief and Rehabilitation (3.589%)	2,500,000,000,000
7.	Subsidy reserve fund (1.436%)	1,000,000,000,000
8.	National Resources Commission (0.891%)	620,600,000,000
9.	Ministry of Water Conservancy (0.545%)	379,900,000,000
10.	Ministry of Agriculture and Forestry (0.027%)	190,000,000,000
11.	Ministry of Health (0.009%)	6,000,000,000
	Total	CNC$69,832,500,000,000

Budget of the Second Half of 1948

After the formation of the constitutional government in July 1948, Premier Wong Wen-hao's first task was to compile the government's budget for the second half of 1948, and to present it to the Legislative Yuan for approval.

Because of the campaign against the communist rebellion and the heavy military expenses involved, Premier Wong divided the national budget into two parts, the first consisting of ordinary expenditures to be covered by its regular incomes, and the other for military and emergency expenditures to be met by special incomes such as proceeds from the disposal of enemy properties, government assets and surplus supplies.

The budget was presented to the Legislative Yuan towards the end of July, and it was passed with only minor modifications. It was formally announced by President Chiang Kai-shek on August 12.

A. Government Revenues, July to December, 1948

1.	Income tax (regular)	CNC $19,700,000,000,000
2.	Inheritance tax (regular)	9,000,000,000,000
3.	Sales tax (regular)	11,000,000,000,000
4.	Special business tax (regular)	4,500,000,000,000
5.	Customs duties (regular)	100,914,353,460,000
6.	Commodity tax (regular)	112,700,000,000,000
7.	Salt tax (regular)	8,100,000,000,000
8.	Mining tax (regular)	2,300,036,000,000
9.	Business tax (regular)	5,000,000,000,000
10.	Land tax (regular)	12,167,545,000,000
11.	Fines and reparations (regular)	3,330,500,000,000
12.	Fees (regular)	5,127,796,540,000
	(special)	572,954,500,000
13.	Interests on national assets (regular)	225,289,266,000
	(special)	300,000,000
14.	Proceeds from sale of government assets and goods (regular)	10,701,400,000
	(special)	90,791,000,000
15.	Profits of government enterprises (regular)	16,700,838,460,000
	(special)	20,075,000,000,000
16.	Incomes of government enterprises (regular)	1,834,090,000
17.	Contributions and donations (special)	50,000,000,000
18.	Miscellaneous incomes (regular)	53,561,270,000
	Total	CNC$331,621,500,986,000

B. Government Expenditures

1.	National Assembly	CNC$ 14,205,000,000
2.	Tsung Tung Fu (President's Office)	725,200,380,000
3.	Executive Yuan	2,129,622,080,000
4.	Legislative Yuan	1,974,782,830,000
5.	Judicial Yuan	209,861,890,000
6.	Examination Yuan	360,230,789,000
7.	Control Yuan	221,164,620,000
8.	Ministry of Interior	3,166,295,290,000
9.	Ministry of Foreign Affairs	3,303,954,480,000
10.	Ministry of Defense	130,321,131,300,000
11.	Ministry of Finance	15,918,114,971,000
12.	Ministry of Education	49,786,080,150,000
13.	Ministry of Justice	9,908,558,800,000
14.	Ministry of Agriculture and Forestry	3,695,389,590,000
15.	Ministry of Industry and Commerce	784,535,990,000
16.	Ministry of Communications	5,338,517,864,000
17.	Ministry of Social Affairs	2,751,544,110,000
18.	Ministry of Water Conservancy	3,484,801,650,000
19.	Ministry of Land	1,533,002,200,000
20.	Ministry of Health	1,767,632,254,000
21.	Ministry of Food	35,349,789,644,000
22.	National Resources Commission	12,828,810,000
23.	Mongolian-Tibetan Commission	252,857,250,000
24.	Overseas Affairs Commission	265,134,497,000
25.	Ministry of Budgets, Accounts and Statistics	102,440,300,000
26.	Ministry of Audit	413,202,410,000
27.	Loan services	37,221,843,900,000
28.	Pensions and compensations for public functionaries	171,032,240,000
29.	Subsidies to provincial and municipal governments	3,509,720,380,000
30.	Second budgetary reserve fund	8,829,225,417,000
	Total	CNC$323,512,701,086,000

DIRECT TAXES*

There are five direct taxes in China. They are the income, excess profits, inheritance, stamp and business taxes.

I. Income Tax

This tax is levied on: Business profit, emoluments and salaries, interest on capital and investment, rents on land and property, and temporary incomes.

(a) Income on business profit: The income of all profit-making firms, corporations, sole-owned firms and other organizations are liable to tax. The tax rate ranges from five percent up to 30% of the net income. A 10% reduction on the net incomes of public utilities, mining industries, and transport enterprises is provided for.

Conditions for claiming exemptions from this tax as of August, 1948, included: (1) if the annual total net income did not exceed CNC$60-million; (2) net income of educational, cultural, public welfare, philanthropic organizations that were used solely for their own maintenance; and (3) net income of cooperative societies which were properly registered with local government authorities and which distributed all profits among their members.

(b) Income tax on emoluments and salaries: This tax is further subdivided into (1) earnings of all free occupations and services, and (2) salaries of civil servants, military personnel, and public and private employees. The rate is three percent on the former and one to four percent on the latter.

The following categories (August, 1948) were exempt from income tax: (1) If the annual income did not exceed CNC$36-million; (2) if the monthly income under class 2 did not exceed CNC$3-million; (3) monetary compensation to civil servants and members of the nation's military and police forces who died or suffered injuries while on official duty; (4) salaries of primary school teachers and other employees; (5) monetary compensations, pensions and relief funds to the disabled, laborers, and people without means of making a living; and (6) incomes of foreign diplomatic personnel in China representing countries which accord reciprocal treatment to Chinese diplomatic personnel.

(c) Income tax on interests on capital and investment: This tax is assessed on the interest and premiums of all government bonds, company stocks, bank deposits, and loans of non-financial organizations. The rate is a flat five percent. No minimum is set but the following categories are exempt: (1) Interest on deposits of government organizations; (2) interest on compulsory savings of civil servants, members of armed and police forces, and laborers; and (3) interest on funds of educational, cultural, public welfare, and philanthropic organizations.

(d) Income tax on rentals on land and property: All rentals on land, buildings, ships, cars, and machines are liable. The rate is a flat four percent and the taxable minimum, as in August, 1948, was CNC$20-million annually. Exemptions may be claimed under the following conditions: (1) annual total income less than CNC$20-million; (2) buildings and property belonging to government organizations; and (3) buildings and property belonging to educational, cultural, public welfare, and philanthropic organizations.

(e) Tax on temporary incomes: Six percent is levied on the temporary incomes of all firms. Incomes less than CNC$10-million and the earnings of hawkers were tax exempt, effective 1948.

In addition to the foregoing five categories, there is the Aggregate Income Tax. This was levied on the net incomes of individuals who made CNC$300-million or more annually after paying the regular taxes. The rate ranged from five percent between CNC$300-million and CNC$500-million and all the way up to 40% on aggregate incomes exceeding CNC$500-million.

II. Excess Profits Tax

The tax, as its name implies, applies to the most profitable businesses. For this reason, it is levied on profits that exceed 60% of the capital. Businesses falling into the following five categories are taxable:

(1) Business firms, including all dealers and firms engaged in the buying and selling of agricultural products and manufactured goods.

(2) Banking and trust businesses, including all banks and banking corporations, and trust, insurance, investment and real estate companies.

(3) Business agencies.

(4) Construction businesses, including all construction firms.

(5) All manufacturing businesses.

The rate is from 10% to 60% with the minimum taxable profit that exceeds 60% of the capital. The excess profits of enterprises of cultural, educational, public welfare, and philanthropic organizations are exempt provided that all their profits are to be used solely for their own maintenance.

* The sums of money used in this section are all in *fapi* (C.N.C.), as effective in 1948. These figures were converted into Gold Yuan in August, 1948, and into Silver Yuan in July, 1949.

III. Inheritance Tax

The collection of the present Chinese inheritance tax is based on the following four conditions:—

(1) It is collected on properties within the territory of China left by Chinese or foreign nationals who die in China.

(2) It is collected on properties in China left by foreigners who die in China, and not on properties outside of China.

(3) It is collected on properties in China and in foreign countries of Chinese nationals who had resided in China before death.

(4) Property of Chinese nationals who had no residence in China before death is tax exempt.

Properties liable include the following:—

(1) Movable property: According to the Chinese Civil Code, all that is not immovable, is movable property. Thus gold, jewels, machines, and finished products are considered movable property.

(2) Immovable property: According to the Chinese Civil Code, "Immovable property consists of land and fixed objects on it. Its products not separated therefrom are also considered part thereof." Thus, land, buildings, and mineral deposits are all immovable property.

(3) All rights of the deceased that do not fall into either the movable or the immovable categories, such as trade marks, copyrights, and mining rights.

The rates, as effective in 1948, ranged from one percent on the minimum of CNC$2-million up to 60% for sums above CNC$100-million.

Under the present inheritance law, the following cases are tax exempt:—

(1) If the total property left by the deceased is under CNC$1-million (August, 1948).

(2) Property left by members of the national armed forces and civil servants who die in war or as a result of injuries suffered in war, whose total valuation is under CNC$5-million (August, 1948).

(3) Cultural, historical, and art objects and books that have been registered with the local inheritance tax collection offices by their inheritors. However, the tax will be levied should the articles change ownership through sale.

(4) Donations to government organizations.

(5) Donations to schools, hospitals, and libraries.

(6) Copyrights, patent rights, and art works of the deceased.

(7) Allowance to the children of the deceased. The allowance is limited to five percent of the total property bequeathed to each offspring and the five percent is again limited to CNC$100,000 (August, 1948).

(8) Inherited property which had been taxed less than three years ago.

(9) Property of the deceased which had been given away or transferred to another over five years ago.

(10) The private property of dependents of the deceased, husband, wife, or children, already registered as such.

IV. Special Business Tax

This tax is levied on banking, trust and insurance businesses, stock exchange and their affiliated profit-making organizations, import trade, international and interprovincial communication concerns, and all other competitive government or semi-government profit-making enterprises.

It is based upon the total scheme of business done or on the net profit. In the former case, the rate is 1½%, in the latter 4%. These rates are reduced by half in the case of government and semi-government enterprises which manufacture consumer goods. Factories and producers who have paid a factory or production tax are exempt.

Before the National Total Mobilization Act was enacted in 1947, the tax was collected monthly although it was assessed on a quarterly or semi-annual basis. Since then, it has been collected quarterly or semi-annually.

V. Stamp Tax

This tax is levied on nearly all documents, deeds, receipts, and negotiable instruments. It is also levied on a progressive scale on all sales receipts above a fixed minimum, cash and commodity receipts, bills, account books and deeds of assets, stocks and bonds, loans, credits, and mortgage deeds, and admission tickets to theaters, cinemas, athletic meets and exhibitions, at the rate of CNC$30 per CNC$10,000 (August, 1948).

On deeds and receipts of insurance companies, contractors, commercial orders, and brokers and agents, the rate in August, 1948, was CNC$1,000 for sums from CNC$100,000 to CNC$5-million; CNC$5,000 for sums from CNC$5-million to CNC$50-million; CNC$20,000 for sums from CNC$50-million to CNC$500-million; and CNC$100,000 on all sums over CNC$500-million.

There are numerous other documents that require the affixation of stamps to make them valid. The general principle for determining the tax on each document is this: the tax shall be in proportion to the amount. If the document is only a certificate such as personal identification cards or a school diploma, the amount of the tax is fixed.

The tax stamps are easily obtainable. Besides post offices, all government banks and their branches, the Central Trust of China, provincial, municipal, and *hsien* banks, and 59 commercial banks and their branches have been authorized by the Ministry of Finance to sell them.

CUSTOMS REVENUE

China's postwar customs revenue has been limited by her import and export control policy, necessitated in both instances by her shortage of foreign exchange. Extensive smuggling in south China has been another contributing factor toward the drop in China's customs revenue.

To use her limited foreign exchange to the best advantage, China first imposed restrictions on imports early in 1946. Under these provisional measures, imports were classified into three groups: unrestricted, controlled, and prohibited goods. Exports were also divided into the unrestricted and the banned categories. Meanwhile, to promote export trade, export duties were abolished in August of the same year.

With the enforcement of the above measures, there was a marked increase in the volume of foreign trade. Customs returns likewise increased. The total value of imports of 1946 was over CNC$1,501,165-million as compared to the previous year's CNC$14,199-million, an increase of over a hundred-fold.

The total net worth of the year's exports was over CNC$412,111-million, representing an increase of 90 times over the previous year's CNC$4,484-million.

Toward the end of 1946, because of unstable economic conditions the government was forced to take drastic measures to cope with the situation. The export-import regulations enforced in March were revised in November. Quotas were introduced to control the imports.

This import quota system was in force up to October, 1948. Quotas for various imports were fixed every three months by the Import-Export Board and then allotted to importers. The quotas were in terms of U. S. currency.

The Chinese government supplied all the foreign exchange required to cover the import quotas, first at its official exchange rate and after August, 1947, at the Foreign Exchange Equalization Board's flexible open market exchange rate.

As the government supplied foreign exchange to the importers, it required the exporters to sell to it their foreign exchange earnings at a rate commensurate with the rate of foreign exchange sold to importers. This ruling proved to be an impediment to the export trade, as the government's exchange rate usually lagged far behind the realistic open market price. This not only rendered exports unprofitable, but made exporting a losing business. As a result, the government had to subsidize certain exports.

Because of limitations on imports and exports, customs revenue did not increase in the postwar period, although the government had regained not only all commercial ports lost to the enemy during the war, but those on Taiwan.

The worst enemy to China's customs income in the first two postwar years was south China smuggling. It was so rampant and extensive that in 1947 alone, over 23,000 cases of smuggling were apprehended by the authorities. Confiscated smuggled goods totalled over CNC$300-billion, exclusive of cases still pending at the end of 1947.

The net worth of the imports in 1947 was CNC$10,681,326,574,000 and that of exports, CNC$6,376,504,297,000. The imports consisted mainly of cotton, machinery, tools, iron and steel, paper, gasoline, rubber, diesel oil, dyestuffs, vehicles, and tobacco leaves. The principal exports were tung oil, hog bristles, soybeans, cotton cloth, foodstuffs, vegetable oils, tea, leather products, cotton yarns, and silks.

Net imports during the first four months of 1948 totalled CNC$18,484,776,449,000, and exports, CNC$12,268,361,386,000.

Customs revenue totalled CNC$2,315,470,520,000 during 1947 and CNC$6,213,952,517,000 during the first four months of 1948. In 1946, receipts totalled CNC$325,550-million and in 1945, CNC$4,740-million. It is difficult to say if the revenue had actually increased in the last two years, for the value of the Chinese dollar was depreciating steadily and the revenue was from the whole of China instead of from the interior provinces only, known during the war as Free China.

To stamp out large-scale smuggling, the Chinese Government needed the cooperation of two colonial governments: Hongkong and Macao. Because of their proximity to the China mainland, these two colonies have been used as operational bases by the smugglers. Negotiations with them resulted in two separate anti-smuggling agreements.

At the same time the Chinese customs adopted measures to strengthen its preventive service. More patrol boats of the Chinese Navy were placed at its disposal. It ordered 16 mine-sweepers and 130 patrol boats of various descriptions from the United States.

Anti-smuggling measures were adopted by the Legislative Yuan in February, 1948, which gave the Chinese customs the authority to deal with all smuggling cases.

Among products smuggled out of China are tungsten ore, tung oil, rapeseed oil, hog bristles, cotton yarn and cloth, and foodstuffs. Articles smuggled into the country are chiefly banned luxuries, controlled foreign goods, gold and foreign currencies. They include cosmetics, nylon products, woolen piece-goods, industrial chemicals, drugs, dyestuffs, paper, and cigarettes.

While the Chinese Communists' extensive smuggling activities were aimed at undermining the government's financial

TABLE 2: CHINESE CUSTOMS REVENUE, 1947

Month		Total
January	CNC$	43,981,487
February		87,288,869
March		127,990,697
April		114,741,205
May		133,684,069
June		114,675,677
July		107,844,375
August		116,920,528
September		221,892,282
October		326,762,870
November		421,598,280
December		498,090,181
Grand Total	CNC$	2,315,470,520

SOURCE: Ministry of Finance

TABLE 3: CHINESE CUSTOMS REVENUE, JANUARY-APRIL, 1948

Month		Total
January	CNC$	852,432,157
February		850,527,629
March		1,619,355,968
April		2,891,636,745

SOURCE: Ministry of Finance

TABLE 4. PRINCIPAL IMPORTS AND EXPORTS, 1947

IMPORTS	EXPORTS
1. Cotton, raw	1. Oil, wood
2. Machinery and tools	2. Cotton piecegoods
3. Liquid fuel	3. Bristles
4. Paper	4. Cotton yarn
5. Iron and steel	5. Beans and peas
6. Vehicles	6. Tea
7. Gasoline	7. Silk
8. Rubber and rubber products	8. Wolfram
9. Tobacco leaf	9. Oil tea
10. Chemicals	10. Silk piecegoods
11. Oil, kerosene	11. Eggs and egg products
12. Flax, ramie, hemp, jute and their products	12. Salt
13. Timber	13. Antimony
14. Wool	14. Seed-cake
15. Rice and paddy	15. Hats, buntal fibre, hemp straw, rush
16. Aniline dyes, and other coal tar dyes	
17. Electrical fittings, fixture and materials	
18. Woolen piecegoods, blankets and rugs	
19. Sulphate ammonia	
20. Wheat flour	
21. Soda ash and caustic soda	
22. Miscellaneous metal products	
23. Railway sleepers	
24. Lubricating oil	
25. Black sulphur	
26. Telephonic and telegraphic instruments and parts (including radio sets and parts).	

SOURCE: Ministry of Finance

position, the other smugglers were in it for the profits. Despite the difference in motives both damaged the national economy.

China was one of the participating nations in the World Trade Conference held in Geneva in 1947. She was also a signatory to one of its agreements to reduce tariff on certain imports. Preliminary Chinese business reaction to China's adherence to this agreement was unfavorable, as it was contended that the country's infant industries would not be able to compete with foreign products without adequate tariff protection. The Ministry of Finance dispelled this fear by reminding the public that in the first place, the reduction would be reciprocal, and that China would export more to foreign countries, especially to the United States. The ministry also declared that China's feeble industrial foundation was taken into full consideration before the conclusion of the tariff reduction agreement, and that other signatory countries were considerate enough to have permitted China to limit the reduction to only such imports as would affect her domestic industries the least.

TABLE 5—IMPORTS AND EXPORTS; NET VALUE OF MERCHANDISE, 1947 AND 1948 (JAN.-APRIL)
Unit: CNC$1,000

	Net Imports	Net Exports	Excess of Imports
1947 TOTAL	10,681,326,574	6,376,504,297	4,304,826,277
January	150,625,438	48,475,339	102,150,099
February	216,888,781	81,882,144	135,006,637
March	430,050,012	144,985,432	285,064,580
April	520,461,737	210,922,464	309,539,273
May	521,392,762	415,131,864	106,264,898
June	532,461,420	266,708,150	265,753,270
July	721,638,348	236,961,257	484,677,091
August	938,510,954	478,098,595	460,412,359
September	1,440,528,398	286,725,778	1,153,802,620
October	1,746,766,278	530,040,429	1,216,725,849
November	1,678,770,397	1,560,524,082	118,246,315
December	1,783,232,049	2,116,048,763*	...
1948 Jan.–April	18,484,776,449	12,268,361,386	6,216,415,063
January	2,080,397,006	1,738,662,318	341,734,688
February	1,969,006,087	1,724,455,242	244,550,845
March	6,557,504,673	3,515,126,328	3,042,378,345
April	7,877,868,683	5,290,117,498	2,587,751,185

* Excess of exports CNC$332,816,714,000
SOURCE: Ministry of Finance

COMMODITY TAX

In its broad sense commodity tax in China covers the consolidated tax, the tax on native tobacco and wines and the tax on minerals. In its narrow sense, it is the consolidated tax.

Commodity tax is levied on 13 items: cigars, cigarettes, processed tobacco leaves, imported liquors, wines and beer, matches, sugar and sugar products, cotton and cotton yarn, wheat flour, cement, tea, hides and furs, joss paper, beverages and cosmetics.

The consolidated tax was first introduced in 1928 as an experiment to unify the Chinese system of taxation. Prior to that a commodity was taxed at each place it moved through by different regional tax organizations. At first the consolidated tax was applied only to cigars and cigarettes. By 1937, it had been broadened to cover five classes of goods: cotton and cotton yarn, matches, cement, wheat flour, and imported liquors, beer, processed tobacco, and alcohol.

After the outbreak of the war, when China lost almost all of her coastal cities, she also lost over 90% of her income from the commodity tax. That forced the government to expand the taxable list, which up to October, 1948 had 13 items.

The Internal Revenue Administration in the Ministry of Finance, to enlarge the sources of revenue, assessed goods not according to quantitative measurements as

before the war, but levied on an *ad valorem* basis beginning September, 1941. Early in March of the same year, government monopolies in salt, tea, cigars and cigarettes, matches, and sugar and sugar products were created as an experiment. In the following year monopoly bureaus were established in various parts of the country.

The sugar monopoly was repealed in 1944, the tobacco and match monopolies went in January, 1945. The tea monopoly was never strictly enforced although the product was collected and distributed solely by the China National Tea Corporation. The salt monopoly was abolished in January, 1945. But in Taiwan province, government monopoly of camphor, tobacco and wines continued.

The consolidated tax on tea, timber, hides and furs, chinaware and earthenware, joss paper, wheat flour, cement, alcohol, and beverages was lifted in January, 1945, but it was restored in October, 1946. Cosmetics has since been added to the listed of taxable commodities.

During the war, following the adoption of the land tax in kind in 1941, it first became possible to collect consolidated tax on cotton yarn, wheat flour, and sugar in kind. The products so collected were distributed by the Daily Necessities Administration of the Ministry of Economic Affairs as a way to stabilize commodity prices.

When the war ended in 1945, the collection of consolidated tax in kind was suspended, and instead, payments were accepted in the national currency.

With a view to encouraging the influx of yarn, flour and sugar from foreign countries and Japanese occupied areas, they were exempted from import duties during the war. The levies, however, were restored in the postwar period.

Mining and mineral taxes were revised in the postwar period. Tungsten, antimony, tin, mercury, were controlled and enjoyed special tax rates during the war. Since V-J Day tin and mercury have been struck off the list. Wartime controls on saltpeter and sulfur were also lifted after the conclusion of the war, and they are not taxable as all other non-controlled minerals. Gold and gold mining are still exempted from commodity tax.

Domestic tobacco leaves, pipe tobacco and wine were subject to 40%, 20%, and 60% *ad valorem* respectively during the war. In 1946, the rates were revised to 50%, 30%, and 80% respectively.

Following the currency reform in August, 1948, commodity tax on rolled tobacco, cured tobacco leaves, joss paper, imported wine and beer, domestic wine, tobacco leaves. and pipe tobacco was raised to augment the government's revenue as a means to balance the national budget.

TABLE 6: COMMODITY TAX RATES
April to July, 1948

Tax	Category of Commodities	Rate
Commodity (Consolidated) taxes	Cotton yarn	7%
	Sugar	25%
	Matches	20%
	Rolled tobacco	100%
	Cured tobacco leaves	30%
	Imported wine and beer or Chinese imitations	100%
	Woolen yarn and thread	15%
	Hides	15%
	Cement	15%
	Carbonated water and similar beverages	20%
	Joss paper	60%
	Cosmetics	45%
Mineral taxes	Coal and iron	3%
	Others	5-10%
Domestic wine and tobacco	Leaves	60%
	Pipe tobacco	40%
	Wine	100%

Table 7: Commodity Tax Rates

August, 1948

Tax	Category of Commodities	Rate
Commodity (Consolidated) taxes	Cotton yarn	10%
	Sugar	25%
	Matches	20%
	Rolled tobacco	120%
	Cured tobacco leaves	30%
	Imported wine and beer or Chinese imitations	120%
	Woolen yarn and thread	15%
	Hides	15%
	Cement	15%
	Carbonated water and similar beverages	30%
	Joss paper	60%
	Cosmetics	45%
Mineral taxes	Coal and iron	3%
	Others	5-10%
Domestic wine and tobacco	Leaves	60%
	Pipe tobacco	40%
	Wine	100%

SALT TAX

In January, 1945, the government discontinued its salt monopoly by permitting the people to manufacture, transport, and sell salt, while reserving to itself the power of supervision.

In February, 1946 the Executive Yuan adopted an outline of "Salt Administration" in which the government's new policy with regard to salt was spelled out. In March, 1947 the "Salt Admnistration Regulations" superseding the old "Outline," were passed by the Legislative Yuan. Though the new and old laws were based on similar principles, the new regulations aimed at removing a number of malpractices in the Chinese salt industry and business. One of these was the age-old custom that the salt produced at each producing center could be sold only to a few distributors, and the latter could only distribute it within certain designated areas.

To ensure purity in table salt, the regulations required that first-grade salt must contain more than 90% sodium chloride; and second-grade salt, at least 85%. Salt of both grades must not contain more than 5% water. No salt containing less than 85% sodium chloride should be distributed for human consumption. Besides these two, other grades permitted by rules were salt for fishery, industrial and agricultural enterprises.

The salt taxes were reserved by the regulations to the state; the local governments were not allowed to levy them. The rates were to be fixed by law, and were to be collected only once at the place of production.

According to law, the government supervises and coordinates the production and distribution of salt. After the Ministry of Finance fixes the annual production figure, salt administration organizations allocate the production quota to the various producing centers. Salt distribution is based on population, industrial, agricultural and fishery needs of the consumption areas.

Salt taxation has been greatly simplified in the postwar period. Before 1937, while passing from its producer to the consumer, it was subjected to taxation scores of time by both the central and local governments. At the end of 1946, taxes had been reduced to only four and all surcharges were abolished. The assessment on agricultural and fishery salt was extremely low, while that on industrial salt was removed in October, 1946.

Before the currency reform in August, 1948, the salt tax had not kept pace with commodity prices. Up to the end of that month, it was collected at the rate of CNC$450,000 per 50 kg. After the issuance of the Gold Yuan notes*, the rate was revised to GY$8 per 50 kg. for high-grade salt to GY$5.60 for low-grade salt.

The revenues from salt in the first six months of 1948 totalled CNC$8,800-billion. Administrative costs for the collection of this sum were CNC$1,800-billion, about 23% of the total receipts.

Table 8: Comparison of Commodity Tax Receipts
Unit: CNC$1,000

Category	Name of Article	Rate	Receipts 1945	Receipts 1946	Receipts January–June, 1947
Mineral products tax	Coal and Iron	3%	..	..	..
	Metallic and Non-Metallic	5%–10%	$787,005	$3,518,397	$24,207,436
Commodity (Consolidated) Tax	Cigar	60%	$17,298,308	$441,864,517	$656,205,386
	Cigarettes	100%			
	Cotton yarn	7%			
	Imported Liquor wine	100%			
	Matches	20%			
	Sugar products	25%			
	Cured tobacco	30%			
	Cement	15%			
	Wheat flour	2.5%			
	Furs, hides	15%			
	Tea	10%			
	Cosmetics	45%			
	Beverages	20%			
	Joss Paper	60%			
	Crackers				
	Lumber, bamboo				
	Porcelain Pottery				
	Alcohol				
Domestic tobacco and wines	Pipe tobacco	30%	$9,182,737	$64,006,829	$101,277,147
	Leaves	50%			
	Wines	80%			
Miscellaneous			$41,172	$402,851	$220,312
	Grand Total		$27,309,222	$509,792,594	$781,910,281

Source: Internal Revenue Administration, Ministry of Finance

In October, 1948, the Chinese Salt Administration maintained 960 offices in various parts of the country with a staff of 13,269 members as compared with 1,408 salt tax offices and 15,339 staff members at the end of the war. During the war, when the area under the control of the National Government was much smaller, the corresponding numbers had been 1,567 and 28,231, respectively.

Salt-producing centers were divided into 15 tax administrative area: The Northeast, Changlu (in East Hopei), Shantung, Liang Hwai (both banks of the Hwai river), Shanghai, Liang Che (east and west Chekiang), Fukien, Liang Kwang (Kwangtung and Kwangsi), Chwan Kang (Szechwan and Sikang), Chwan Pei (north Szechwan), Yunnan, the Northwest, Shensi, Shansi and Taiwan. Their combined annual total production was estimated at around 3-billion kg. (60-million piculs).

TABLE 9: SALT REVENUE— 1937 TO 1946

Year		Total
1937	CNC$	148,830,649.49
1938		62,397,996.77
1939		113,276,254.16
1940		105,100,145.62
1941		125,362,933.38
1942		1,437,372,249.04
1943		1,668,975,232.74
1944		18,093,009,997.36
1945		61,908,917,031.94
1946		206,279,874,138.02

SOURCE: Ministry of Finance

TABLE 10: SALT PRODUCED IN 1946 (Unit: picul)

District	Quantity
Changlu	9,783,457.16
Shantung	2,876,430.59
Northwest	193,340.58
Shensi	137,594.56
Shansi	280,295.56
Northeast	502,999.41
Anhwei	1,467,292.40
Hupeh	58,954.58
Hunan	3,504.18
Northern Szechwan	1,725,826.77
Szechwan-Sikang	6,365,109.16
Chekiang	3,817,951.37
Shanghai	128,421.30
Kwangtung-Kwangsi	4,465,569.64
Fukien	1,003,496.88
Taiwan	3,836,784.46
Yunnan	843,338.93
Total	37,490,367.53

SOURCE: Ministry of Finance

* One Gold Yuan equivalent then to CNC$3-million.

LAND TAX

In 1941, all provincial land tax was turned over to the National Government, and was collected in kind. Its rate varied from province to province.

This form of taxation was enforced to meet the armed services' food needs during the war. However, as the war continued, the government found that even this was not enough to feed the armed forces and civil personnel. Therefore in 1942, in addition to the collection of the land tax in kind in provinces where there was surplus, the government bought grains with either national currency or with Food Treasury Notes. The Treasury Food Notes were issued by the government in September 1941. They bore the names of the county and the province where they were issued in denominations of one-tenth of a picul up to 100 piculs or 5,000 kg.

After the introduction of this cash purchase program, the government found that in certain provinces like Szechwan and Chekiang, the large amount of money thus put into circulation stimulated food prices considerably. Therefore, the cash payment was discontinued in 1943. Instead, all government purchases were paid in the Food Treasury Notes. The redemption of these notes was to commence the fifth year after their issuance, and to be completed within five years.

In 1944, the payment of the Food Treasury Notes was also discontinued, and the government simply acknowledged the amount of food it had received from the farmers in addition to the land tax in kind on the receipts and promised to repay the amounts borrowed in five years.

During the war, all the grains collected or requisitioned from the farmers went to the National Government. But as the local governments also needed funds to cover administrative expenditures, the National Government authorized an additional collection of grains from 1942 until the end of the war.

After the war, the government turned over 70% of the grains it collected as land tax to the local governments, and kept for itself only 30%. It was the government's original plan to terminate early the collection of this tax. However, the communist rebellion has made this impossible. War, inflation, and soaring commodity prices also made it necessary for the government to ration grains in the major cities as a measure of stabilizing food prices.

FOREIGN LOANS

China's foreign loans may be grouped into two main periods. The first period covers all those made prior to 1927, the year of the establishment of the National Government, and the second period covers loans contracted from 1927 up to the fall of 1948.

The National Government honored all the foreign loans contracted by previous regimes, including the overthrown Manchu dynasty, and promised to make good principal and interest. Up to the outbreak of the Sino-Japanese war in 1937, it had cleared nearly two-thirds of the loans. Even during the early years of the war, it managed under great difficulties to continue repayments. Only when all of her main sources of revenue had been lost to the enemy in the war did it announce the suspension of repayment in January 1939, which was accepted by the creditor nations.

The war necessitated the importation of large quantities of military supplies and communication materials. Therefore, China contracted a number of foreign loans for their purchase.

The first of these was the US$50-million Sino-Soviet Barter Credit Loan of March 1, 1938 that carried an annual interest of 3%. The complete redemption period was set at five years, beginning from October 31, 1938.

This was followed by the second and third credit loans of US$50-million and US$150-million each. The second loan was made on the same terms as the first, while for the third one the period of maturity was set at 10 years.

In March, 1939, the National Government, on behalf of its Ministry of Communications, contracted a British loan of £188,000 at an annual interest of 5% for the purchase of motor vehicles for use on the Yunnan-Burma highway. As stipulated in the agreement, this loan was completely repaid in 1943.

In August of the same year, a British credit loan of £2,859,000, known as the First Sino-British Credit Loan, was floated in London. Bearing an annual interest of 5%, it was to be repaid from the fifth year, and the entire sum to be cleared before the end of 1953.

The Second Sino-British Loan of £5-million was concluded in June, 1941. It bore an annual interest of 5% to be repaid from October, 1946 to April, 1951.

The two British loans were for the purchase of machinery and other industrial raw materials in the United Kingdom or other places in the sterling bloc.

Another Sino-British loan of £50-million, known as the Sino-British Financial Aid Loan, was concluded in 1944. Up to February 1948, £8,036,624 were still outstanding. The money was used to buy war supplies from the sterling bloc and to be used as security for a domestic loan.

The National Government obtained a wood-oil loan of US$25-million from the U. S. in February, 1939. This has since been fully repaid.

In April, 1940, it obtained another sum of US$20-million known as the Sino-American Tin Loan, to be fully repaid within seven years.

The Sino-American Tungsten Loan of October, 1940, totalled US$25-million and was to be fully repaid within five years.

The Sino-American Metal Loan of US$50-million was concluded in 1941, to be reimbursed within seven years.

The last wartime Sino-American loan was the Sino-American Financial Aid Loan, totalling US$500-million.

POSTWAR FOREIGN LOANS

1. The Sino-Canadian Credit Loan: This was concluded by the governments of the two countries on February 7, 1946. The total was $60-million in Canadian curency, bearing an annual interest of 3%. The loan should be completely repaid by the Chinese government before the end of 1977. It was agreed that $25-million should be used for the re-imbursement of mutual-aid materials and industrial equipment bought by the Chinese government before the end of the war, and the remaining $35-million for the purchase of reconstruction materials and various service charges. Up to the end of February, 1948, the Chinese government had drawn $39,619,765 from this credit loan.

2. The Sino-American Cotton Loan: This, totalling US$33-million was signed by the Bank of China and the American Export-Import Bank on March 14, 1946, and guaranteed by the Chinese government to finance the purchase of American cotton for Chinese textile industries. It bears an annual interest of 3%. It was agreed that the Chinese government could draw on this loan as its guarantor. Up to the end of July, 1947, $32-million of the loan had been used.

3. The Sino-American Railway Supplies Purchase Loan: A loan agreement totalling US$16,650,000 was signed between the Chinese government and the American Export-Import Bank on June 3, 1946, and subsequently amended on August 26 of the same year. It was specified in the agreement that the sum was to be used for the purchase of railway replacement parts and materials. Its funds should be exhausted by the Chinese government by the end of 1948, and its repayment should be completed before the end of 1976. The annual interest is 3% and is to be paid semi-annually, on April 1 and October 1 each year. The repayment of the principal will begin on September 1, 1951.

4. The Sino-American Lend-Lease Surpluses Transfer Contract: Although this agreement was not concluded until June 14, 1946, the transfer of such surpluses had actually begun on September 2, 1945 which was the termination date of the original Lend-Lease Contract signed by the two governments on June 2, 1942. The shipment of Lend-Lease supplies to China did not cease until some time after the expiration of the original contract. The total amount under the new contract was US$58,900,000 at an annual interest of 2⅜%. The loan should be completely repaid before July 1, 1976, with the first payment due July 1, 1947. It also provided that the payment of both interest and principal may be postponed if and when the Chinese government should have financial difficulties or in the event of extraordinary circumstances.

5. The Sino-American Coal Mining Equipment Loan: This was signed by the Chinese government and the American Export-Import Bank on August 26, 1946, and its total was US$1,500,000. As its name suggests, it was meant for the purchase of equipment needed by Chinese coal mines. The entire amount should be drawn before the end of 1947. Up to the end of January, 1948, the Chinese government had actually spent US$825,000. The annual interest of 3% is payable semi-annually on April 1 and October 1. Repayment of the principal will begin in the fifth year of the signing of the agreement, and the entire amount should be completely repaid before 1966.

6. The Sino-American Ship Purchase Loan: This was signed by the Chinese government and the American Export-Import Bank on August 5, 1946. The total amount was US$2,600,000. It was agreed that the entire loan should be used before the end of 1947. It was meant for the purchase of 16 merchant ships. Up to the end of January, 1948, $2,540,000 had been so used. The loan bears an annual interest of 3½%, and is to be paid semi-annually on April 1 and October 1. Repayment of the principal will commence in the fifth year of the loan, and the entire amount should be completely repaid before the end of 1961.

7. The Sino-American Electric Generators Purchase Loan: Totalling US$8,800,000, it was signed by the Chinese government and the American Export-Import Bank on July 16, 1946 for the purchase of ten 5000-kw. electric generators. According to the agreement, the entire loan should be used before the end of 1947. Up to the end of January, 1948, US$3,900,000 had been so used. It bears an annual interest of 3%, and the terms of repayment are similar to those of two foregoing loans.

TERMINATION OF THE BOXER INDEMNITY

The indemnity of 450-million taels of silver that China was made to pay to 14 foreign countries in the Boxer Protocol of 1901 finally ended with the conclusion of the new treaties in 1943 between China and Great Britain, and between China and the United States.

However, the portion due to Portugal, Spain, Sweden, and Norway nominally remained, pending the conclusion of new treaties between China and those countries.

Japan was one of the 14 nations, but by China's declaration of war on her in 1941 Japan's rights to the indemnity came to an end. Germany's and Italy's shares of the debt had been cleared before the outbreak of World War II.

Though the payment of the indemnity had terminated with China's conclusion of new treaties with its former claimant nations, several foreign loans were still secured on it.

1. The Chinese Government 23rd Year (1934) 6% Indemnity Loan: It totalled £1,500,000 and was to have been completely repaid before January 1, 1947. The payment of both interest and principal was suspended along with all other foreign loans in January, 1939 following the loss of most of China's customs revenue to the enemy. The total amount of interest and principal outstanding then was £1,567,380.

2. The Sino-Belgian Boxer Indemnity Loan: Totalling US$5-million, it was secured on the remaining portion of the Belgian part of the Boxer Indemnity as of the end of 1927 and was floated by the Chinese government according to an agreement concluded between the Chinese and the Belgian governments in December, 1927. It bore an annual interest of 6% and was to have been completely repaid before the end of January 1942, but since 1939, the loan services have been suspended. The total sum outstanding, both interest and principal, up to the end of 1946 was US$898,862.06.

3. The Sino-French Boxer Indemnity Loan: The loan totalling US$43,893,900 was floated through the Banque Industrielle de Chine in 1925. Bearing an annual interest of 5%, both interest and principal were to have been repaid before the end of 1947. However, the repayment was suspended in January, 1939, and up to the end of 1946, the debt still outstanding totalled US$32,097,490.

4. The Nanking-Kiangsi Railway Loan: In 1937, in order to complete the railroad between Hsuancheng (Anhwei) and Kweihsi (Kiangsi), the government floated a loan of CNC$14-million which was bought by a Chinese consortium, and was secured on CNC$18,772,200 of the British-remitted Boxer Indemnity fund, originally earmarked for the Canton-Hankow railway for 1937 to 1946. It had an annual interest rate of 6%, and was to be repaid within 10 years. Up to the suspension of its repayment in January, 1939, the total amount of interest and principal still outstanding was CNC$17,225,200.

DOMESTIC LOANS

Up to 1936, there were 39 unmatured domestic loans totalling over CNC$1,400-million. They were of various amounts bearing different rates of interest. The payment of these loans and interest was highly complicated.

In that year, the government decided to simplify the procedures. As a result, in January, 1936, all the loans were converted into five loans called "Consolidated Loans A, B, C, D, and E." They were to be paid out of surplus customs revenue. During the war, after the loss of nearly all customs revenue to the enemy, the payment of these consolidated loans was suspended along with all foreign debts in January 1939. Up to August, 1948 these consolidated loans were still on the market.

In 1936, the government issued:—

1. The Reconstruction Bonds: They totalled CNC$340-million, and their period of maturity was set at 24 years. The fund thus realized was used to improve the nation's banking and financial system and organization, balance the government's budget, and stabilize the market of government bonds.

2. The Third Railway Construction Bonds: Totalling CNC$120-million, these were issued in three installments of CNC$40-million each. The funds thus realized were used chiefly for the construction of the Hunan-Kwangsi and Kwangsi-Kweichow railways and for the improvement of other existing lines.

3. The Szechwan Relief Bonds: These totalled CNC$25-million and their period of maturity was set at 15 years.

4. The Kwangtung Financial Reform Bonds: They totalled CNC$120-million, and their period of maturity was set at 30 years.

In 1937, four other domestic loans were floated by the government. They were the Nanking-Kiangsi Railway Construction Bonds, totalling CNC$14-million with the period of maturity set at 10 years; the Kwangtung Harbor Excavation and Dredging Bonds, totalling US$2-million with its period of maturity set at 15 years; the Kwangsi Finance Bonds, totalling CNC$17-million with maturity set at 22 years; the National Liberty Bonds, totalling CNC$500-million with maturity set at 30 years; and the Short Term Government Treasury Notes, totalling CNC$500-million.

On May 1, 1938, to finance the war against Japan, the government floated a CNC$500-million loan known as the National Defense Bonds, secured on income tax and to be redeemed in 30 years.

Another loan composed of Customs Gold Units 100-million, £10-million, and US$50-million was floated by the government on the same date. It was called the Finance Loan, and was used to carry on the war. Its period of maturity was set at 15 years. Surplus salt revenue, after discharging obligations of all government loans previously secured thereon, was designated as the loan's collateral.

A third loan, called the Relief Loan, was floated in 1938. It totalled CNC-$100-million, and was secured on government tax revenue. Its period of maturity was set at 20 years. However, of the authorized total, only CNC$30-million was actually floated.

In 1939, the Military Supplies and Reconstruction Loans, totalling CNC-$1,200-million were floated by the government. Their periods of maturity were set at 25 years.

Two similar loans were floated by the government in 1940, totalling CNC$1,-200-million and £10-million and US$50-million, respectively. Their periods of maturity were also set at 25 years.

These loans were again floated in 1941. The Military Supplies Loan and the Reconstruction Loan totalled CNC-$1,200-million each. They also were to mature within 25 years. In the same year, the government also issued Food Bonds in various provinces. In terms of Chinese piculs and its sub-units, they totalled altogether 7,233,636 piculs of unhusked rice, and 2,066,667 piculs of wheat.

In 1942, the Allied Victory Loan was floated twice by the government. The first part, totalling US$100-million, was issued on May 1, and the second one, totalling CNC$1-billion, on July 1. Its period of maturity was set at 10 years. The Food Bonds floated the previous year were issued again in 1942. They totalled 11,380,036 piculs of unhusked rice and 1,400,000 piculs of wheat.

The Allied Victory Loan floated by the government in 1943 totalled CNC-$3-billion. Food Bonds totalling 20,112,-000 piculs of unhusked rice and 1,550,-000 piculs of wheat were also floated that year.

From 1944 to the early part of 1947, no new loan was floated by the government. However, the sale of the Victory Loans was continued.

In April, 1947, with a view to stabilizing the national currency and promoting foreign trade, two bonds in U. S. currency were put on the market by the government. The first one was the Short-Term Treasury Notes, totalling US$300-million, and the second U. S. Currency Bonds, totalling US$100-million. Up to the end of 1947, US$30,956,530 of the former, and US$25,819,550 of the latter had been sold.

Gold Yuan Consolidated Loans A, B, and C

Following the currency reform of August 19, 1948, the Chinese Government on September 4 announced the issuance on October 1 of three new Gold Yuan loans to replace all previous foreign currency domestic loans. The three Gold Yuan loans were Consolidated Loans A, B, and C, totalling GY-$523-million.

Consolidated Loan A totalled GY$137-million, and bore an annual interest of 5%. The interest was to be paid semi-annually with the first payment due on March 31, 1949.

In the regulations governing the issuance of the three new loans, it was stipulated that Consolidated Loan A would redeem the first two issues of the 1947 Short-Term U. S. Currency Treasury Notes that had not matured on August 19, 1948.

Consolidated Loan B totalled GY$325-million, and bore the same premium as Consolidate Loan A. Interest was also to be paid every six months, with the first payment due on May 31, 1949. It was to replace the 27th year (1938) Gold Loan of Customs Gold Units 100-million the 27th Year Relief Loan of £10-million and US$50-million and the 31st Year (1942) Allied Victory Loan of US$100-million, that had not matured on August 19, 1948.

Consolidated Loan C was issued to withdraw the 29th Year (1940) Reconstruction Gold Loan of US$50-million and £10-million. Its rate of interest and its payment were similar to those of the first two Consolidated Loans with the first interest payment due on July 31, 1949.

The repayment of the principal of the three new loans is to begin from the fifth payment of the interest by drawing lots, with Consolidated Loan A to be repaid within five years; B, 10 years; and C, 20 years. Their respective dates of maturity will be March 31, 1951; May 31, 1961; and July 31, 1971.

The conversion of the old bonds into the new Gold Yuan bonds was limited to six months from the date of issuance to October 1, 1948. The conversion rates were fixed at US$1 to GY$4 and £1 to GY$12.

Side by side with the announcement of the issuance of the Gold Yuan bonds as replacements for former foreign currency domestic bonds, the Chinese Government proclaimed a set of measures for the redemption of all outstanding public bonds in national currency.

There were 17 domestic bonds in the national currency, and their owners were asked to cash them within six months beginning from October 1, 1948. The following were the loans and their redemption scale:

Name of Bonds	Multiple of Face Value to be Paid
17th Year (1928) Long Term Finance Bonds	27,000
25th Year Consolidation A, B, C, D, and E	27,000
25th Year Reconstruction Bonds	27,000
25th Year Szechwan Relief Bonds	27,000
25th Year Kwangtung Currency Bonds	27,000
26th Year National Liberty Bonds	13,000
26th Year Kwangsi Currency Bonds	13,000
27th Year National Defense Bonds	12,000
27th Year Relief Bonds	12,000
27th Year Gold Bonds	12,000
28th Year Military Supplies Bonds (Second issue)	10,000
29th Year Military Supplies Bonds (First issue)	9,000
30th Year Military Supplies Bonds (First issue)	7,000
31st Year Allied Victory Bonds	5,000
32nd Year Allied Victory Bonds	3,000
32nd Year Provincial Bonds Readjustment Bonds Classes I, II, III, IV	3,000
33rd Year Allied Victory Bonds	1,000

CHAPTER 20

CURRENCY

Outstanding events in the history of the Chinese currency from 1935 to 1949 were the adoption of the *fapi,* Chinese legal tender, in 1935; the unification of the note-issue by the Central Bank of China in 1942; the currency reform of August 19, 1948, when the Gold Yuan was introduced to replace the *fapi;* and the second postwar currency reform of July 2, 1949, when Silver Dollar Notes were issued to substitute for the Gold Yuan.

FAPI—LEGAL TENDER

China's first legal tender, the *fapi,* based on a managed silver standard, was introduced in 1935 out of necessity. Japan, at that time, was bent on undermining the Chinese Government with a new aggression toward ultimately subjugating the country. In the field of currency, Japan tried to get silver dollars out of China, then the main Chinese medium of exchange. It was difficult for the Chinese Government to completely stop such an exodus.

To counteract the Japanese scheme, the Chinese Government introduced the *fapi.* Though based on the standard value of the Chinese silver dollar, the *fapi* notes were not convertible into silver dollars. It was thus a currency based on a managed silver standard.

The standard Chinese silver dollar weighs 26.697 grams, of which 88% is silver and 12% copper. Its silver content is 23.493448 grams.

After the introduction of the non-convertible *fapi* notes, the circulation of silver dollars was banned and the people were ordered to surrender them to the government in exchange for legal tender notes. *Fapi* notes were issued by the Central Bank of China, the Bank of China, the Bank of Communications, and the Farmers' Bank of China. They became government banks, and since then were referred to as the Four Government Banks. All other banks were ordered to recall their own notes from circulation within a specified period.

Prior to the issuance of the *fapi,* almost every established commercial bank issued its own notes, using the standard Chinese silver dollar as the basic unit.

In the pre-*fapi* period, China's currency situation was further complicated by provincial money notes. Each province had its own bank that issued notes for circulation within its provincial limits. Many provinces also minted their own silver dollars and subsidiary coins. Except in a few areas such as Yunnan and Sinkiang, the *fapi* gradually replaced the banknotes.

As one phase of the currency evolution in China, the *fapi* attained some success. It achieved those immediate objectives for which it was devised, and it served the country through the long war with Japan that began two years after its introduction. Many currency experts believed that if the Chinese Government had not adopted the *fapi* in 1935, it would have been exceedingly difficult to carry on its eight years of war with Japan.

When the *fapi* was first introduced, the total amount of paper money in circulation was between CNC$1,400,000,000 and CNC$2,000,000,000. The rate of exchange between the Chinese and U. S. dollars then was 10 to 3. The foreign exchange market was free.

The Chinese Government in 1942 aimed at further simplifying its currency by limiting the power of note-issue to the Central Bank of China alone. Thus the Central Bank of China moved closer to being the bank of banks.

The other three government banks were ordered to stop their note issue, and all their currency, those being printed as well as those in reserve were transferred to the Central Bank of China.

As the war with Japan continued, the *fapi* gradually became inflated. To mitigate the situation, the government put into use in 1942 Customs Gold Unit notes which formerly were used only by importers to pay Customs duties. Its rate of exchange with the *fapi* was pegged at

one to 20, and the C.G.U. notes were issued in addition to *fapi* notes. The two kinds of notes were the media of exchange in China during the war and remained in circulation until the currency reform of August 19, 1948, when the Gold Yuan notes were issued.

When the *fapi* notes were first issued, they were of five denominations of $1, $5, $10, $50, and $100. Notes above the $10 denomination were relatively rare, even as late as 1942.

At the end of the war, the largest denomination of the *fapi* notes issued was CNC$1,000. Even up to the end of 1946, these were the largest in circulation.

The inflation, however, became much more serious in 1947. From 1948 onward, it took on a malignant character. When the currency reform was announced on August 19, 1948, the largest denomination *fapi* notes in circulation was CNC$1,000,000. The government had already announced the printing of CNC$5,000,000 notes that, however, were never issued.

THE GOLD YUAN

By a Presidential mandate, the Gold Yuan was introduced on August 19, 1948. As the basic unit of China's national currency, its gold content was fixed at 0.22217 grams. Although backed by 100 percent specie and other valuable reserves, the Gold Yuan was not convertible into gold. The legal tender notes called Gold Yuan notes, were of six denominations: one, five, ten, twenty, fifty and one hundred Yuan.

There were two subsidiary units, *chiao* and *fen,* (ten *fen* making one *chiao,* and ten *chiao* making one *yuan*) or five denominations, namely one *fen,* five *fen,* one *chiao,* two *chiao,* and five *chiao.* They were issued in the forms of auxiliary notes or copper, nickel, and silver coins.

The *Regulations Governing the Issuance of Gold Yuan Notes* limited the total amount of note-issue to two billion Yuan. Meanwhile, the people were ordered to convert all their *Fapi* and C.G.U. notes into the Gold Yuan notes before November 20, 1948, and their gold, silver, silver coins, and foreign currencies before September 30. The latter deadline, however, was extended to October 31, 1948.

The conversion of gold, silver, silver coins, and foreign currencies held by the people was compulsory, and both gold and silver were nationalized. The possession and circulation of foreign money were prohibited.

The conversion rate between the Gold Yuan and the *fapi* notes was fixed at one to 3,000,000; the C.G.U. notes, one to 150,000; and U. S. currency notes, one to four Gold Yuan. Each *shih liang* (Chinese ounce, equivalent to 31.25 grams) of gold of required fineness was to be exchanged for 200 GY notes; and each *shih liang* of silver for three GY notes.

All Chinese nationals and corporate bodies likewise were required to declare and register foreign exchange and gold holdings. The foreign assets of all Chinese banks were registered with the Central Bank of China.

The regulations governing the issuance of the Gold Yuan provided that GY note issue "shall be backed by 100 percent reserve" to be composed of a minimum of 40 percent in gold, silver and foreign exchange, and the remainder in bonds and securities and government-owned properties designated by the government.

A Gold Yuan Note Issue Reserve Supervisory Commission was established for the inspection and custody of reserve of GY note issue. At the end of each month the supervisory commission was to conduct an examination of the amount of GY notes issued by the Central Bank of China and the conditions of their reserve. The findings of the inspection were to be published in the form of a monthly report.

The Gold Yuan notes and the accompanying currency reform measures were at first favorably received. During the first month after the issuance of the new currency, the people surrendered to the Central Bank of China and its appointed banks more than US$190,000,000 worth of gold, silver, silver coins, and foreign currencies in exchange of the Gold Yuan notes.

On August 19, 1948, all commodity prices were frozen at the prevailing levels of that date. This step obviously was taken to stabilize the value of the new currency. It was this factor that three months later proved to be the pitfall in the currency reform even in spite of the government's frantic efforts to maintain the ceilings.

The August 19 price levels were maintained in Shanghai. Because of the strict enforcement of the import and foreign exchange controls, it was found that the demand for finished goods and raw materials far exceeded the supply. It soon turned out that both the wholesale and retail commodity prices were even below the actual cost of production. Manufacturers stopped producing goods. It became impossible for shops and stores to replenish their stock. There was a buying rush in the Nanking-Shanghai area, and

soon all commodities disappeared from the market. Most businesses were at a standstill.

Meanwhile, the black market was rampant. Daily necessities such as rice, flour, cooking oil, salt, and all foods became hard to get. Riots aimed at rice and other food shops broke out in many cities. The situation was desperate and demands for the abrogation of the August 19 price ceilings were heard from all quarters of the country.

Under heavy public pressure, the government lifted its price controls on November 1. But this did not change the situation markedly. It was no longer a question of price, but one of value of the Gold Yuan notes. After lifting the controls, commodities began to reappear but within a few days the prices of commodities, which had been frozen for over two months, broke all records. They jumped several times a day. If the businessmen had started the price race themselves, they soon found that the situation was double-edged. Not only was the entire economic life of the cities affected, it was also impossible to carry on business under such quicksand conditions. Again, ten days after the unfreezing of prices, business was paralyzed.

What started in the Nanking-Shanghai area soon spread to other parts until the whole nation's economy was threatened. To meet the unprecedented crisis, the government on November 11 revised the main principles of the earlier currency reform.

In the August 19 reform, gold, silver, silver coins, and foreign currencies were nationalized and banned from circulation. The Gold Yuan notes were based on a managed gold standard and were non-convertible. The revision reversed these fundamental principles. The Gold Yuan was devalued and was made convertible into Gold Yuan coins. The people were again allowed to hold gold, silver, silver coins, and foreign currencies, but only silver coins were allowed to circulate.

Consequently, the rates of exchange between the Gold Yuan and gold, silver, silver dollars and U. S. dollars were revised. The revised rates were: (1) One Chinese ounce (31.25 grams) of gold of required fineness to be exchanged for GY$1,000; (2) one Chinese ounce of silver of required fineness for GY$15; (3) one silver dollar for GY$10; and (4) one U. S. dollar for GY$20.

The conversion of Gold Yuan notes into gold and silver dollars was authorized to begin on November 22 in Shanghai, Nanking, Chungking, Hankow, Peiping, Tientsin, and Canton, and in 19 other cities on December 1.

There was no limitation on the conversion amount. During the initial period, Gold Yuan notes totalling over GY$500 were to be paid in gold, those below this amount, in silver dollars. GY$500 represented at the current conversion rate one-half of a Chinese ounce of gold. The Central Mint had been turning out gold ingots of four different weights to meet these needs: one-half Chinese ounce, one ounce, five ounces and ten ounces. As of November 11, the total Gold Yuan notes in circulation were estimated at under GY$2,000,000,000.

THE SILVER YUAN

The Silver Yuan (dollar) was introduced on July 2, 1949 as the new national currency. With a gross weight of 26.6971 grammes and a fineness of 880/1000, the new currency has a fixed silver content of 23.493448 grammes. Silver Yuan Certificates, which are legal tender notes, are issued in five denominations, e.i., one, five, ten, 50 and 100 dollars. Backed by 100 percent reserve, they are convertible into silver coins or gold. (Conversion of Silver Yuan Certificates into silver dollars was authorized to begin in Canton on July 4, and in Chungking, Foochow, Hengyang, Kweilin, Kunming, Kweiyang, Chengtu and Lanchow on or before July 15.)

Redemption of Gold Yuan notes for the silver currency—at the rate of GY$500,000,000 to one Silver Yuan—was ordered to be completed within two months. Silver dollar notes of one dollar or higher denominations issued by various provincial banks in the spring of 1949 were ordered withdrawn immediately. Subsidiary notes (of less than one dollar) issued by these provincial banks are permitted to remain in circulation.

The Ministry of Finance authorized the Central Bank of China to readjust periodically the rates of exchange between the Chinese national currency and various foreign currencies. (The initial rates announced by the Central Bank were: US$1 equivalent to $1.55 in silver currency, British £1 to $3.72 in Silver Yuan, and Hongkong $1 to $0.24 in Silver Yuan.) The ban on circulation of foreign currencies in China was reimposed. However, possession of foreign currencies remains legal.

Following is an English translation of the *Regulations Governing the Issuance of Silver Yuan and Silver Yuan Certificates*:

Regulations Governing the Issuance of Silver Yuan and Silver Yuan Certificates

Promulgated by Presidential order on July 2, 1949

Article 1. The national currency of the Republic of China shall be the Silver Yuan which shall have a gross weight of 26.6971 grammes with a fineness of 880/1000 and a silver content of 23.493448 grammes.

Article 2. The subsidiary coins of the Silver Yuan shall have five denominations; namely, one cent, five cents, ten cents, twenty cents and fifty cents. Weight, fineness and metallic contents of these subsidiary coins shall be fixed separately.

Article 3. The Silver Yuan and the subsidiary coins shall be minted by the Central Mint and issued by the Central Bank of China.

Article 4. For convenience of circulation, the Central Bank of China shall issue Silver Yuan Certificates and subsidiary notes. The Silver Yuan Certificates shall have five denominations; namely, one yuan, five yuan, ten yuan, fifty yuan and one hundred yuan. The subsidiary notes shall have four denominations; namely, five cents, ten cents, twenty cents and fifty cents. The legal tender quality of the subsidiary coins and subsidiary notes shall be limited to twenty yuan each time.

Article 5. The issuance of the Silver Yuan Certificates and the subsidiary notes shall have a hundred percent reserve, no less than sixty percent of which shall be silver coins, gold, and/or foreign exchange, and not more than forty percent of which shall consist of negotiable securities and warehouse receipts.

Article 6. The places where the redemption of Silver Yuan Certificates will be made shall be approved by the Ministry of Finance and announced by the Central Bank of China.

Article 7. When the supply of silver coins is inadequate, the redemption may be effected in gold, whose conversion rate against silver coins shall be announced by the Central Bank of China.

Article 8. Purchase of foreign exchange with the Silver Yuan Certificates in accordance with the provisions of the Regulations Governing Foreign Exchange Transactions shall be permitted.

Article 9. Effective from the date of the promulgation of these regulations, all public and private payments shall be on the basis of the Silver Yuan. All the tax receipts of Central and local governments and rates of government enterprises shall in all cases be payable in Silver Yuan Certificates.

Article 10. The Central Bank of China shall make no advance to the government unless the full amount of the reserve as specified in Article 5 is duly received.

Article 11. The Central Bank of China shall report monthly the amounts of the Silver Yuan Certificates and subsidiary notes issued to the Executive Yuan and the Ministry of Finance for examination and announcement.

Article 12. The Supervisory Committee of the Central Bank of China, together with a representative of the Control Yuan, to be invited by the Executive Yuan and the Ministry of Finance, shall inspect each month the amount of the Silver Yuan Certificates issued and the reserves held there against. Any non-compliance of these regulations shall be immediately rectified.

Article 13. Provincial banks of various provinces may, upon approval of the Ministry of Finance, issue Silver Yuan Certificates and subsidiary notes. The amount of such note issues and their reserves shall be reported monthly to the Ministry of Finance for its periodic inspection.

Article 14. Counterfeits, forgeries and deliberate mutilation of silver coins, the Silver Yuan Certificates, and the subsidiary notes are strictly prohibited. Offenders are liable to punishment in accordance with regulations governing penalties against infringement of the national currency.

Article 15. These regulations shall come into effect on the date of their promulgation.

LOCAL CURRENCIES

Owing to special local conditions, the circulation of certain provincial currencies is specially permitted by the government.

Since China regained possession of Taiwan in 1945, a local currency has been in circulation in the island province. The Taiwan currency, which survived both the *fapi* and the *Gold Yuan*, underwent a reform on June 15, 1949. Now the *Hsin Taipi* (New Taiwan Dollar) is directly pegged to the U. S. dollar (at five-to-one ratio). (For details on the Taiwan currency, see section on TAIWAN in Chapter 2.)

The province of Sinkiang also has its own currency for local circulation.

For exclusive circulation in the nine Northeastern Provinces (Manchuria), the government issued the Northeast Circulation Notes late in 1945. These notes

went out of existence toward the end of 1948 when the entire area was overrun by the communists.

COINS

The right to mint coins rests with the Central Mint. Before the introduction of the *fapi*, the mint made silver dollars and silver and alloy subsidiary coins. Later, it only turned out subsidiary coins. But this ended in 1943. The inflation of the *fapi* made the intrinsic value of the subsidiary coins much greater than their face value.

During the postwar period up to the introduction of the Gold Yuan notes, the mint turned out gold ingots of various weights. Even this job stopped when the government ceased to use gold to uphold the *fapi* at the end of 1946.

After the introduction of the Gold Yuan notes, the mint started to function again, producing the Gold Yuan coins and subsidiary coins stipulated in the *Revised Regulations Governing the Issuance of the Gold Yuan Notes*. The mint also turned out gold ingots of one-half, one, five, and ten Chinese ounces that were used in exchange for Gold Yuan notes.

GOLD AND SILVER

Private exportation and importation of gold have been banned in China. The first law to this effect was promulgated in 1938. During the war two other sets of regulations were adopted to stop the smuggling of gold from free China into Japanese-occupied areas. However, the government permits gold to be imported if a license to do this has been issued. China's gold imports from 1943 to 1946, according to the Ministry of Finance, were: 1943, from French Indo-China, valued at 2,481,488 Customs Gold Units; 1944, from French Indo-China, 393,460 C.G.U.; 1945, from India, 14,100 C.G.U.; and 1946, from U.S.A., valued at CNC$28,110,608,000.

Since February, 1947, commercial transactions in gold within the country have been banned by the government along with transactions in foreign currencies. Under the ban, only sale of ornamental gold under two Chinese ounces is permitted.

Because the Chinese currency was based on the silver standard in the past, a large volume of silver was imported by the country each year. In 1934, when the United States raised its price of silver, there was a disastrous exodus of silver from China. As this affected China's currency, the government first tried to check the exportation by imposing Customs duties on silver exports. In 1935, silver was nationalized with the introduction of the *fapi*, and the exportation of silver was prohibited. The ban is still in force.

CHAPTER 21

BANKING

JOINT ADMINISTRATIVE OFFICE

The Joint Administrative Office of the Four Government Banks was established in 1937. Until its dissolution on October 30, 1948, it was in control of the operations of all government banks. It was abolished in 1948.

When the *fapi* notes, China's legal tender, were issued in 1935, the Bank of China, the Bank of Communications, and the Farmers' Bank of China were made government banks and their combined reserves placed behind the new national currency. The three banks together with the Central Bank of China were from then on referred to as the "Four Government Banks."

When the Sino-Japanese war broke out in 1937, to coordinate the activities of these four banks, it was felt that a special organization should be set up. As a result, the Joint Administrative Office was established that year in Shanghai. Its function then was mainly advisory. In the winter of 1939, to gear the country's financial activities to the requirements of the war, the government in two sets of regulations, namely, the *Outline of Measures Governing the Consolidation of National Finances* and the *Outline of Measures Governing the Strengthening of Government Financial Organizations*, gave the Joint Administrative Office complete control over the four government banks. In addition, the Central Trust of China, the Postal Remittances and Savings Bank and the Central Cooperative Bank later were similarly placed under its control.

According to its by-laws the Joint Administrative Office had the power to decide on the following matters:

(1) Establishment of a financial network for the country.

(2) Adjustment of note-issue and approval of note reserves.

(3) Issuance of subsidiary notes.

(4) Absorption of surplus capital.

(5) Promotion of loans and discounts.

(6) Extension of farm loans.

(7) Approval of domestic and overseas remittances.

(8) Investment in special wartime productive enterprises.

(9) Adjustment of war supplies.

(10) Collection and conversion of gold and silver into legal tender notes.

(11) Promotion of public savings.

(12) Control of foreign exchange.

(13) Auditing budgetary estimates and approving receipts and disbursements of the four government banks.

In the postwar period, the main tasks of the Joint Administration Office were as follows: Approving investments in production enterprises, collecting native products for the government, promoting exports, and encouraging overseas Chinese remittances back to China through official channels.

One of the most lasting wartime achievements of the Joint Administrative Office was the unification in 1942 of the note issue in the Central Bank of China. Prior to that the four government banks as well as many commercial banks issued their own notes.

In 1947, through the banking institutions under its control, the Joint Administrative Office authorized loans totalling CNC$4,598,900-million and Northeast Circulation Notes $30,300-million (equivalent to CNC$303-billion). The recipients of these loans were mining industries, communications, salt industries, food programs, trade, and government and educational organizations. Loans to farmers and farming projects granted by the office in the same year totalled CNC$1,380-billion and Northeast Circulation Notes $2-billion (equivalent to CNC$20-billion).

TABLE 1.—LOANS TO MINING AND OTHER INDUSTRIES APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Recipients	Number of Loans	Total Amount
Coal Industries	163	3,168
Steel Industries	15	1,249
Electric Industries	275	2,096
Chemical Industries	701	2,146
Textile Industries	315	9,574
Foods	508	3,256
Others	241	911
TOTAL	2,218	CNC$22,400

Source: Joint Administrative Office of the Four Government Banks

TABLE 2.—LOANS TO COMMUNICATIONS AND PUBLIC UTILITIES APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Recipients	Number of Loans	Total Amount
Railways	65	2,634
Highways	48	181
Airways	83	1,701
Public Utilities	185	2,181
Others	2	8
TOTAL	383	CNC$6,705

Source: Joint Administrative Office of the Four Government Banks

TABLE 3.—LOANS TO SALT INDUSTRIES APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Items	Number of Loans	Total Amount
Salt Production	18	1,887
Transportation	437	5,168
Storage and Transportation Facilities	5	157
TOTAL	460	CNC$7,212

Source: Joint Administrative Office of the Four Government Banks

TABLE 4.—LOANS TO FOOD PROCUREMENT PROGRAMS APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Items	Number of Loans	Total Amount
Food for Civilians	66	3,023
Food for the Armed Forces	8	1,713
TOTAL	74	CNC$4,736

Source: Joint Administrative Office of the Four Government Banks

TABLE 5.—LOANS TO EXPORT TRADE APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Banks	Total Amounts		
Bank of China	US$16,997	£4,840	..
Bank of Communications	5,850	440	Hongkong$6,580
Central Trust	16,480	980	..
Farmers' Bank	15,850	..	..
TOTAL	US$55,177	£6,260	Honkong$6,580

Note: The totals were the foreign earnings of Chinese exports surrendered to these banks.

Source: Joint Administrative Office of the Four Government Banks

TABLE 6.—LOANS TO EXPORTABLE GOODS APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Goods	Number of Loans	Total Amount
Hog bristles	92	1,093
Tung oil	61	943
Tea	28	67
Silk piece-goods	36	443
Minerals	4	60
Commodities	1,458	3,800
Others	195	494
TOTAL	1,874	CNC$6,900

Source: Joint Administrative Office of the Four Government Banks

TABLE 7.—LOANS TO GOVERNMENT AND EDUCATIONAL ORGANIZATIONS APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Organizations	Number of Loans	Total Amount
Administrative Organizations	5	19
Military Establishments	12	309
Educational Bodies	247	939
Local Bodies	46	893
Cultural Bodies	217	933
Others	59	309
TOTAL	586	CNC$3,402

Source: Joint Administrative Office of the Four Government Banks

TABLE 8.—ORDINARY AGRICULTURAL LOANS APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Items	Total Amount
Agricultural production	7,320
Irrigation projects	581
Agricultural expansion	280
Village industries	178
Transportation	3,952
TOTAL	CNC$12,311

Source: Joint Administrative Office of the Four Government Banks

TABLE 9.—SPECIAL AGRICULTURAL LOANS APPROVED BY THE JOINT ADMINISTRATIVE OFFICE IN 1947.

Unit: CNC$100-million

Items	Total Amount
Fostering independent farmers	138
Land reforms	50
City land reforms	370
Re-registration of land title deeds	40
Re-demarcation of land	3
Government purchases of land	3
Land purchases at market prices	3
Village and town production units	3
TOTAL	CNC$610

Source: Joint Administrative Office of the Four Government Banks

THE CENTRAL BANK OF CHINA

The Central Bank of China is the bank of banks in China. Besides the exclusive right to issue notes granted it by the government in 1942, it controls every phase of the nation's banking business by order of the government. Its expansion in the postwar period has been rapid. Up to the end of 1946, it had 88 branch offices throughout the country.

The bank has a board of directors of 11 to 15, a supervisory committee of seven members, and a governor and two deputy governors.

In the head office of the bank are bureaus of banking, note-issue, treasury, and departments of the secretariat, auditing, economic research, personnel and county bank administration. The head office, formerly in Shanghai, is now in Taipeh, Taiwan.

The Central Bank was established in 1928 with a capital of CNC$100,000, all invested by the government. In 1934, its capital was increased to CNC$100-million of which 40% represented private capital. In 1935, following the introduction of the *fapi*, its position was further strengthened with the reserve of the Bank of China, the Bank of Communications, and the Farmers Bank of China. Meanwhile, its private shares increased from 40 to 60%.

In the postwar period, the Central Bank has become the principal financial institution, as it has control of the nation's entire specie reserves and foreign exchange. The issuance of Gold Yuan notes in place of the *fapi* and Customs Gold Unit notes in August, 1948, augmented its reserves by nearly US$200-million worth of gold, silver, and foreign currencies.

THE BANK OF CHINA

The Bank of China was established in the latter years of the Manchu dynasty, and was known then as the Ta Ching Bank. Following the Revolution of 1911, it was reorganized and given its present name. Its capitalization at the time of reorganization was CNC$60,000, of which CNC$40,000 represented government investment and the remainder, private shares. Its head office was then in Peking.

In 1917, a revision in the by-laws of the Bank of China authorized the private subscription to the amount of CNC$10-million. In 1921, its paid-up capital exceeded CNC$19-million. A large amount of government shares during this period was converted into private shares. When its head office was moved to Shanghai in 1927 its capitalization was increased to CNC$25-million. Its main function was the promotion of China's foreign trade. In March 1935, the Government increased its shares in the bank to match private shares which then totalled CNC$20-million. The bank thus had a total capital of CNC$40-million. In 1942, partly due to inflation of the *fapi*, the capital of the bank was further increased to CNC$60-million.

Since its founding, the Bank of China had been authorized to issue banknotes. In 1935, when the *fapi* was introduced, it was one of the four government banks whose notes became the legal tender of the country. Following the unification of note-issuance in the Central Bank of China in 1942, notes previously issued by the Bank of China were all withdrawn from circulation.

Among all Chinese banks, the Bank of China has the most extensive network of branches in China and agencies abroad. Up to the end of 1946, it had 216 branches in various cities.

Because of its overseas agencies, the Bank of China has been handling more of the nation's foreign exchange transactions and foreign trade than any other Chinese bank. Actually, this has been its main function since it became one of the government banks in 1935.

It assisted in the production and transportation of such exportable products as tung oil, raw silk, tea, wool, and hog bristles. From 1945 to the end of 1946, the exports of these products increased considerably. In 1947 its efforts in this direction were thwarted, as inflation made exports a losing business. The bank has also done its part to help such production industries as textile, paper manufacturing, sugar, metal, and motor-oil.

THE BANK OF COMMUNICATIONS

The Manchu regime established the Bank of Communications in 1907 on a partnership basis. The total capitalization was fixed at 10-million *Kuping* taels of silver. Besides handling general banking transactions, the Bank of Communications was authorized to act as an agent for the collection of government revenue from railways, telegraphs, posts and navigation. It was also given the right of note issue. The head office of the bank was established in Peking. In 1914 the President of the Republic of China promulgated regulations providing that, in addition to

TABLE 10.—LOANS, REDISCOUNTS, AND DEPOSIT RESERVES OF THE CENTRAL BANK FROM 1943 TO 1946

Items	1943	1944	1945	1946
Call loans	..	CNC$2,795,000,000.00	CNC$134,275,649,200.00	CNC$6,102,811,606,000.00
Rediscount	CNC$109,790,000.00	CNC$ 623,090,900.00	CNC$ 1,886,042,600.00	CNC$ 19,536,720,387.50
Deposit reserves	CNC$594,126,172.92	CNC$1,328,524,808.59	CNC$ 8,964,976,094.62	CNC$ 75,155,828,830.61

Source: Ministry of Finance.

TABLE 11.—TOTAL TURNOVER OF CLEARING HOUSES SPONSORED BY THE CENTRAL BANK FROM OPENING TILL THE END OF 1946

Unit: CNC$1-million

Place	Date Opened	Number of Papers Cleared	Total Amount	Difference
Chungking	June 1, 1942	1,119,756	CNC$5,101,820	CNC$ 876,398
Chengtu	May 25, 1943	535,089	1,096,308	266,594
Sian	May 16, 1944	312,185	1,479,000	423,374
Kunming	November 27, 1944	576,419	1,523,949	440,657
Kweiyang	February 19, 1945	144,894	328,328	123,017
Lanchow	June 15, 1945	56,578	330,527	171,550
Shanghai	November 1, 1945	8,834,615	45,732,586	5,443,105
Tientsin	January 7, 1946	3,803,409	4,759,727	753,311
Peiping	January 7, 1946	325,025	573,195	127,998
Nanking	May 1, 1946	208,522	1,015,872	438,250
Hankow	June 1, 1946	58,472	566,368	210,767
Canton	August 1, 1946	55,084	324,371	126,210
Hangchow	September 2, 1946	88,249	268,109	71,205
Tsingtao	September 2, 1946	61,563	351,263	128,060
Mukden	November 1, 1946	55,489	231,062	130,647

Source: Ministry of Finance.

TABLE 12.—ANNUAL STATEMENT OF THE CENTRAL BANK FROM JANUARY 1 TO DECEMBER 31, 1944.

Losses and Expenditures		Profits and Gains	
Particular	Total	Particular	Total
Expenditures	CNC$1,374,813,072.94	Profit incomes	CNC$6,644,067,668.04
Depreciation discount and others	2,483,469,137.29	Fees	59,416,831.03
Unlisted losses	137,259,473.77	Unlisted gains	1,300,487,898.04
Extra business expenses	3,145,557,961.52	Extra business gains	27,354,035.63
Net profit of the year	890,226,787.22		..
TOTAL	CNC$8,031,326,432.74	Total	CNC$8,031,326,432.74

Source: Ministry of Finance

TABLE 13.—LOANS AND INVESTMENTS OF THE BANK OF CHINA FROM 1943 TO 1946.

Unit: CNC$1,000

Particular	1943	1944	1945	1946
Agricultural export loans	CNC$ 229,000	CNC$ 389,068	CNC$ 1,597,097	CNC$ 63,965,565
Mineral exports loans	126,000	95,965	607,126	331,348
Industries reducing import loans	1,327,612	2,498,407	7,332,954	84,826,467
Trade loans	509,952	899,576	2,813,319	113,491,471
Ordinary production loans	67,650	..	478,500	3,541,332
Other loans	275,066	299,839	1,312,984	26,943,272
TOTAL	CNC$2,535,280	CNC$4,182,855	CNC$14,141,980	CNC$293,099,455

Source: Ministry of Finance

TABLE 14.—BUSINESS TURNOVER OF THE BANK OF CHINA, FROM 1943 TO 1946.

Unit: CNC$1,000

Particular	1943	1944	1945	1946
Ordinary deposits	CNC$ 3,599,665	CNC$ 9,537,202	CNC$ 48,598,140	CNC$ 422,307,334
Ordinary savings deposits	308,820	626,293	2,573,763	8,839,496
Reconstruction savings deposits	473,314	877,638	2,027,244	3,361,161
Public welfare funds	..	12,799	53,824	32,623
Foreign currency and gold deposits	519,936	1,429,956	2,195,110	177,452
Trust deposits	2,680	3,531	6,835	4,983,705
Remittances delivered	21,367,000	63,248,250	276,720,650	1,912,901,401
Overseas Chinese remittance	1,206,787	741,277	682,070	61,185,115

Source: Farmers' Bank of China

general banking business, the Bank of Communications should be given the right to keep in custody special funds of the National Treasury, to act as an agent for the flotation of government bonds, and to issue banknotes.

In 1928, the National Government promulgated a set of revised regulations designating the bank as an industrial bank to finance all kinds of industries. The business franchise was fixed at 30 years. In 1930, savings and trust departments were established, each operating under separate accounts. The bank's head office was then moved to Shanghai.

In April, 1935, the Ministry of Finance again revised the regulations concerning the bank and increased the government capital. The total capitalization, fixed at CNC$20-million, was divided into 200,000 shares, of which government capital was represented by 120,000 shares and private capital by 80,000 shares. The monetary reform of November 3, 1935, made the notes of the Bank of Communications, together with those of the Central Bank of China and the Bank of China, sole legal tender and jointly charged these three banks with the nationalization of silver, redemption of notes of other commercial and provincial banks, and stabilization of foreign exchange.

After the war broke out in 1937, the bank's head office was first moved to Hankow and then to Chungking.

The bank helped to finance the building of seven railways and highways in China. These lines included the Hunan-Kwangsi, Szechwan - Kweichow, Canton - Hankow, Szechwan - Hunan and Kweichow-Kwangsi railways and the Yunnan-Burma road and another highway in Kwangsi province. In several cases, loans were granted jointly with other government banks. The loan extended to the Canton-Hankow railway was to expedite the rescue work on the line due to repeated Japanese bombings.

The bank has either directly invested in or extended credits to economic enterprises in the Southwest and Northwest. At least 30 big units, including the China Industrial Corporation, the Kweichow Development Corporation, the Szechwan Silk Corporation, the Chungking Power Company, the Chungking Waterworks, the Ming Sung Industrial Company, the Szechwan Cement Works, the West China Industrial Corporation, and several cotton mills have been given aid by the bank. In addition, the bank gives small loans to the smaller productive undertakings.

The various heavy industries run by the National Resources Commission of the Ministry of Economic Affairs were operated largely with money from the bank. With the functional specialization from July 1, 1942, the financing of these industries is undertaken entirely by the Bank of Communications. Its capital has been increased to CNC$60-million.

To assist in the development of industrial and mining enterprises has been the specialized function of the Bank of Communications since it was made one of the government banks in 1935. A review of the bank's activities in recent years shows that it has faithfully adhered to its assigned sphere of operation.

Since 1943, the Bank of Communications has devoted its resources to the financing of mining and industries, communications, salt and food production, and the manufacture of daily necessities. The percentage of such loans was 56% of the total in 1944; 72% in 1943, and 74% in 1945.

Industries helped by the bank's loans included machinery, electric power, steel, mining, textile, wheat flour and chemicals, mostly for the purpose of procuring equipment, replacement and raw materials. In 1944, about 50% of all the production loans approved by the Joint Administrative Office were undertaken by the Bank of Communications. In the postwar period, it undertook about two-fifths of the rehabilitation and emergency loans in former Japanese-occupied areas. In addition it loaned Rs.2,023,000 to overseas Chinese in need of funds to re-start business.

During the four years (1943-1946) under review, the deposits in the bank increased from eight to nine times, while its remittances increased by ten times.

THE FARMERS' BANK OF CHINA

The Farmers' Bank of China was established in 1933 to assist rural reconstruction. Its capital, fixed at CNC$250,000, was increased to CNC$10-million in June, 1936. After January, 1936, its banknotes were made legal tender by government order. In 1941, the capital was increased to CNC$20-million and, in the fall of 1942, further raised to CNC$60-million.

Through the war years the Farmers' Bank of China took an energetic lead in rural reconstruction, including the promotion of agriculture and handicrafts. It issued loans at low interest rates all over the country through cooperatives.

TABLE 15.—BUSINESS OF THE BANK OF COMMUNICATIONS, FROM 1943 TO 1946.

Unit: CNC$1,000

Particular	1943	1944	1945	1946
	CNC$	CNC$	CNC$	CNC$
Loans Surpluses	2,457,749	3,985,660	13,056,799	241,814,313
Current loans	949,453	1,790,317	6,424,739	87,966,573
Fixed loans	527,179	614,109	958,482	28,300,035
Discount and mortgage loans	981,117	1,581,234	5,673,577	125,547,705
Deposits Surpluses	2,983,508	9,274,161	41,387,543	230,673,961
Current deposits	2,777,633	9,167,955	41,069,243	226,969,440
Fixed deposits	205,875	106,206	318,300	3,704,521
Remittances				
Delivered	13,821,459	35,820,848	134,102,500	2,111,646,168
Military	775,354	2,251,529	5,795,368	213,440,547
Commercial	9,042,411	19,286,233	58,989,929	1,110,055,454
Others	4,003,694	14,283,086	69,317,203	788,150,167
Overseas Chinese Remittances	80	20	6,060,859	4,552,317
Investments Surpluses	470,437	469,015	513,723	39,227,252
Production	104,517	91,066	90,446	105,614
Stocks and Bonds	365,920	377,949	423,277	39,121,638
Savings Accounts	430,938	1,050,536	4,199,947	9,189,175
Special Savings Accounts	1,079,520	1,256,944	2,033,135	20,640,933
Public Welfare Funds		15,427	36,352	15,102
Foreign Currency and Gold Deposits	862	921,151	1,661,311	31,020
Trust Deposits	84,320	650,224	1,721,855	17,591,309
Investments of Trust Department	2,910	128,729	261,790	991,258

Source: Ministry of Finance.

With the enforcement of functional specialization of the government banks since July 1, 1942, the Farmers' Bank of China has been entrusted solely with rural financing activities, while the right of issuing notes was transferred to the Central Bank of China. Some of the more important types of rural credits extended by the Farmers' Bank of China included agricultural production, irrigation, agricultural extension, marketing, agricultural by-products, land reform, recovered areas, war areas, and border regions loans. At the end of 1944, its total amount of outstanding loans was CNC$3,838,361,900, thus showing an increase of 89% over 1943, approximately three times over 1940, and more than 25 times over 1937.

TABLE 16.—OUTSTANDING LOANS OF THE FARMERS' BANK OF CHINA, FROM 1937 TO 1944

Year	Amount Outstanding	Ratio of Increase	
		1937 as basis	1940 as basis
1937	146,446,279	100	15
1938	284,564,130	194	30
1939	505,568,490	345	58
1940	943,301,101	644	100
1941	2,600,111,339	1,775	275
1942	1,012,744,203	691	107
1943	2,033,835,636	1,388	215
1944	3,838,361,900	2,621	406

Source: Farmers' Bank of China

Of the loans outstanding at the end of 1944, CNC$3,838,361,900, agricultural loans and investments totalled CNC$2,714,534,000. The actual amount of agricultural loans and investments extended during 1944 totalled CNC$2,739,661,000. During the first four months of 1945 more agricultural loans and investments, aggregating CNC$2,066,109,000, were made, and the total outstanding at the end of April amounted to CNC$3,769,087,000.

As stipulated in the Savings Bank Law, a portion of the savings deposit is to be designated as funds for farm loans. The Ministry of Finance ruled that, beginning in 1944, all savings banks were required to turn over 20% of their savings deposits to the Farmers' Bank of China to be used as farm loans.

The bank also has assisted the Government in carrying out its land policy. Efforts have been made to help the farmers to own farms and to better themselves through the extension of loans, the total outstanding at the end of 1944 being CNC$169,442,097. Of this amount CNC$97,567,590 represented land reform loans and CNC$43,504,507 loans to aid in the fostering of independent farmers. The bank further has undertaken to issue land bonds. The total outstanding at the end of 1944 amounted to approximately CNC$10-million. Among other activities the bank has been promoting the welfare of the rural populace and farmers' and laborers' welfare savings.

In the postwar period, the Farmers' Bank made direct investments in agricultural enterprises. The most important of these are the China Agricultural Engineering Corporation, the Agricultural Insurance Company, the Rural Hydraulic Power Development Corporation, the Chekiang Land Reclamation Company, the Fukien Agriculture and Forestry Company, and the Kwangsi Hydraulic Power and Lumber Company. It also assisted the cooperative banks in numerous counties and municipalities.

Another important business of the bank in the postwar period has been the establishment of a chain of storehouses for agricultural products in various provinces. Up to the end of 1946, there were 27 such storehouses in Chekiang, Fukien, Szechwan, Kiangsi, Kansu, Hunan, Kweichow, and Hupeh.

In 1946, the Farmers' Bank was authorized to issue CNC$1-billion worth of land bonds in addition to the CNC$100-million it had been authorized to issue during the war. The second issuance was used to pay for land bought by the government, for distribution among landless

farmers, or as loans to farmers. The period of maturity of the new bonds was fixed at seven years instead of 15 as in the case of the old ones. They were issued in CNC$5,000, CNC$10,000, and CNC-$20,000 denominations.

During the postwar period, the bank has been expanding its services. Up to the end of 1946, it already had 239 branches.

TABLE 17.—LOANS AND INVESTMENTS OF THE FARMERS' BANK FROM 1943 TO 1946.

Unit: CNC$1,000

Particular	1943	1944	1945	1946
Loans & investment surpluses.	CNC$1,527,474	CNC$2,714,534	CNC$5,125,567	CNC$49,528,317
Loans surpluses.	1,441,242	2,581,108	4,923,756	49,127,193
Investment surpluses.....	86,232	133,426	201,811	401,124

Source: Ministry of Finance.

THE CENTRAL TRUST OF CHINA

The Central Trust of China was established in Shanghai in 1935 with a capital of CNC$50-million. Its inauguration, together with the opening of the Shanghai Development and Trust Company by the Municipality of Greater Shanghai in 1932, marked the beginning of government-owned trust companies in China.

During the war, the main activities of the Central Trust included the handling of deposits and savings, underwriting of insurance, selling and purchasing commodities for the Government, and collecting products to fulfil barter agreements. Until March 1, 1945, it had undertaken the printing of banknotes. Other items printed by the trust company included the Central Premium Savings Bonds, special savings coupons, National Thrift and Reconstruction Certificates, government bonds, food treasury notes, revenue stamps, match sales permits, postage stamps, and thrift and reconstruction savings stamps. This important phase of activity of the Central Trust was suspended as of March 1, 1945, and a separate and independent unit was created under the name of the Central Printing and Engraving Works to undertake printing assignments from the government.

Deposits and Savings Operation—Savings deposits in the Central Trust totalled CNC$3,293,135,000 at the end of 1944. Deposits in trust ranked first amounting to CNC$894,463,000, which were increased to CNC$1,670,954,539 by the end of March, 1945. By then, subscriptions to the Central Premium Savings Bonds, issued through the Central Savings Society, totalled CNC$546,099. In addition, the Central Trust from July 1, 1944, till the end of March, 1945, issued CNC$59,-370,500 worth of Investment and Trust Securities.

Insurance Underwriting — During the war, the Central Trust underwrote land war insurance including air-raid risks for investors and producers in Free China. The scope of land war insurance embraced: (1) stored commodities (limited to agricultural, industrial and mining products and goods having a value in foreign trade); (2) productive instruments and raw materials (limited to those in the possession of underwritten factories); and (3) building materials (limited to those in warehouses or in the possession of contractors and engineers during construction).

The Central Trust underwrote CNC-$8,803,771,000 of land war insurance in 1943 and CNC$6,718,011,691 in 1944.

In June, 1941, the Central Trust was given CNC$10-million to write life insurance, and the maximum amount allowed for each policy was fixed at CNC-$10,000. At the end of 1944, the policy subscriptions totalled CNC$963,364,292.

The Central Trust also handled production insurance, marine insurance, fire insurance, and insurance against all land transportation risks. Risks on animals were underwritten by the Farmers' Bank of China.

Collection and Purchase — The Central Trust has been authorized to act as agency for various government organs for the collection and purchase of various vital materials, including daily necessities, liquid fuels, communication equipment, tele-communication equipment, hardware and machinery, chemicals and medicines, and paper including newsprint. The trust company has also been authorized to handle transactions between government organs and the Universal Trading Corporation in New York by forwarding purchase applications and then arranging the actual purchases. The Universal Trading Corporation in New York was a subsidiary organ of the Ministry of Finance.

Since V-J Day, the Central Trust has continued to operate as one of the government financial establishments concentrating its efforts on trust, insurance, savings, barter transactions, and purchases. At the end of 1946, its annual balance sheet showed deposits totalling about CNC$17 - billion; loans, CNC$4,500 - million; investments CNC$1,200-million; and stocks and bonds, US$250,000.

Because of economic instability the Central Trust has experienced serious difficulties in its numerous activities. This has been true particularly in savings and life insurance. In 1946, it started a new system of life insurance policy on the basis of the cost of living. By the end of that year it had accepted a total of CNC$20-billion in life insurance policies.

The Central Trust has done well in property insurance. Since 1946 its reinsurance business with CNC$5-billion from the National Treasury as funds, has also been on the increase.

In the early part of 1945, because of the unfavorable war situation, the Central Trust's barter trade with foreign countries was almost at a standstill. After V-J Day, it took over the export business of the Foo Shing Trading Corporation, and resumed its role as the government's exporting agency. In 1946, it exported about US$10-million worth of tung oil, hog bristles and raw silk to U.S.S.R.; £420,000 worth of hog bristles and other items to Great Britain; tung oil to the United States; and salt, raw silk and other items to Japan.

As a purchasing agency of the government, it imported large quantities of electrical equipment, metal products, and liquid fuels for military and civil branches in the government. It was also authorized by the government to take charge of all enemy property after the end of the war. These property holdings were sold by public auction in 1948.

To help solve the housing shortage in Chinese cities, the Central Trust granted loans to house-builders, and made some direct investments in real estate.

POSTAL REMITTANCES AND SAVINGS BANK

Although a postal savings bank had been in operation since 1919, the Directorate-General of the Postal Remittances and Savings Bank of China was not inaugurated until March 15, 1930. The Postal Remittances and Savings Bank commenced to exercise full control of postal remittances and savings on July 1, 1930. Up to 1937, postal deposits totalled a little over CNC$60-million. The amount dropped to CNC$40-million after the hostilities extended to Shanghai in August, 1937. Through promotion in the interior provinces, the total was increased to CNC$73-million at the end of 1939, including CNC$2-million worth of thrift savings certificates. The savings part underwent wider expansion in 1940 when various types of savings accounts were instituted, resulting in raising the total savings to CNC$100-million at the end of that year. By the end of 1944 the total had been further increased to CNC$4,713,978,000.

The bank's sale of thrift savings certificates registered new records in these years. Subtracting the amount of certificates registered new records in these balance at the end of 1944 was CNC$1,-187,981,000. It was increased to CNC-$1,657,238,000 at the end of February, 1945.

Postal remittances in China began more than 40 years ago. In the early years the service was restricted to big commerical ports only, with the yearly average amounting to five to six million dollars. International postal remittances were started in 1919 and overseas remittances in 1938. In 1939, total remittances handled by the Postal Remittances and Savings Bank amounted to CNC$340-million. Total annual remittances increased steadily in the succeeding years. In 1944, for instance, CNC$22,444,735,608 were remitted through the bank, and CNC$4,898,732,726 more were handled during the two months of January and February, 1945. It is to be noted that these figures do not include remittances handled in Japanese invaded areas. At the end of February, 1945, Free China had altogether 12,333 offices or agents for handling remittances.

Overseas remittances handled by the bank totalled CNC$50-million in 1939, CNC$120-million in 1940 and CNC$170-million in 1941. After the outbreak of the Pacific war, remittance activities in the South Seas islands were suspended. The bank has acted as agent for the New

York office of the Bank of China in handling remittances. It view of the widening disparity of value between the Chinese and the American dollars as a result of the continual climb of commodity prices, the Ministry of Finance instituted a new monetary measure, effective as of July 16, 1945, allowing a 480 percent subsidy on overseas remittances in American currency, thereby bringing the exchange rate to CNC$500 to one U. S. dollar.

The Postal Remittances and Savings Banks began writing life insurance policies in Shanghai, Nanking and Hankow in 1935. The maximum amount of a policy was limited to CNC$500. Although the service was later extended to all postal districts, little development was witnessed because of the small size of the policies. The amount of each policy, therefore, was increased to CNC$5,000 in 1942 and by the end of February, 1945, the bank had written a total of 219,954 policies. Of this number, 117,500 policies were written in 1944 and 15,801 during January-February 1945.

During the postwar period, savings, small-scale domestic and foreign remittances, and simple life insurance policies continued to be the special functions of the Postal Bank. Up to the end of 1946, it had over CNC$132-billion of deposits, transmitted CNC$427,600-million of remittances, underwrote CNC$240,550,000 of life insurance policies, and also had granted CNC$45,300-million loans to essential production enterprises still outstanding.

LOCAL BANKS

At the beginning of the war the Ministry of Finance formulated a comprehensive plan for the establishment of a financial network in the southwest and the northwest. The four government banks were directed to open branches and sub-branches in order to facilitate the development of economic enterprises in the interior. The project for the southwest was virtually completed by 1942, and efforts during the next three years were directed especially to the completion of the financial network in the northwest. The program concerned two elements of the local banking system, namely, the provincial banks and the *hsien* banks.

Provincial Banks

The chief function of the provincial banks is to assist the provincial governments in expanding local industries and fostering reconstruction projects. Provincial banks are not allowed to open new branches outside of the province. Branch offices outside of the province which have already been licensed are permitted to handle remittances in the province only.

At the outset of hostilities in 1937, China had 19 provincial banks. Some moved their head offices and branches to safer places while others had to be closed owing to continued hostilities. Seriously affected were the Kiangsu Bank, the Farmers' Bank of Kiangsu, the Min Sen Bank of Shantung, the Hopei Provincial Bank and the Honan Agricultural and Industrial Bank. The Min Sen Bank of Shantung suspended business.

At the end of June, 1945, there was a total of 21 provincial banks, including three new ones — the Kansu Provincial Bank, the Bank of Kweichow and the Suiyuan Provincial Bank. Establishment of another new bank, to be known as the Chinese Provincial Bank, was planned in July, 1945. With the assistance of the Ministry of Finance these 21 provincial banks had, by the end of June, 1945, opened 1,096 branches, sub-branches and offices. The Szechwan Provincial Bank had set up a sub-office in nearly every *hsien* in the province. The Kiangsu Bank had reestablished itself, also with help from the Ministry of Finance, while the Kwangtung Provincial Bank, after having moved to the northern part of the province from Canton, had been handling even more business than in prewar days.

Of the provincial banks, those in Kwangtung, Hunan and Szechwan are the largest, while those in Szechwan and Chekiang have opened the largest number of sub-offices.

The Szechwan Provincial Bank was reorganized from the former Szechwan Local Bank in 1935 after most of the native banks and financial agencies had collapsed. In 1940 the bank was reorganized and its capital was increased to CNC$40-million, of which one-fourth was paid up by the Ministry of Finance and three-fourths by the Szechwan Provincial Government. Since 1938 the Provincial Bank of Szechwan has been acting as treasury of the provincial government. It now has 92 branches, a few of them being outside the province.

Aside from ordinary banking business the Szechwan Provincial Bank's main wartime tasks was to extend industrial and rural loans and to assist the government in its economic development measures, such as the purchase of foodstuffs, tung oil, bristles and silk for export.

The Szechwan Cooperative Bank is responsible for the development of the province's cooperative enterprises. At the end of February, 1945, there were 22,653 cooperatives in Szechwan with a membership of 2,083,753 persons and a share capital of CNC$124,977,958.

Features of the provincial banks differing from ordinary banks include emphasis on the development of provincial agriculture, mining and industry, exploitation of special provincial products, promotion of local public enterprises, issuance of subsidiary notes for local circulation and the readjustment of local finance.

Loans are given to provincial governments, business, industrial and mining organizations and farmers, to help reconstruction and to rehabilitate areas where fighting had taken place. The Hunan Provincial Bank, for instance, has paid great attention to the construction of food storehouses, the granting of mortgages and small loans to industrial and business concerns, the making of long-term industrial and mining loans and the stimulating of the production of more tea, tung oil and salt. The Chekiang Provincial Bank has set up more than 100 special offices for extending rural credits alone.

In Suiyuan the local bank has helped in revitalizing the textile industry following the disruption of the Peiping-Suiyuan railway, which formerly carried Suiyuan cotton and wool to Tientsin. The Chekiang Provincial Bank has an enterprise department to handle its investments.

These provincial financial institutions were essential for carrying out many special wartime measures, such as the sale of war bonds, the rescue of materials from war areas and the purchase of gold and silver from the people. The Hupeh Provincial Bank, in cooperation with the Joint Administrative Office of the Four Government Banks bought almost all the gold produced in the Han river valley.

Following the conclusion of the Third National Financial Conference in June, 1941, provincial banks became agents of the National Treasury in their respective provinces. Before the conference, provincial banks acted as provincial treasuries.

Under an existing government ruling no provincial bank is allowed to issue notes of any denomination for local circulation.

Hsien Banks

The first *hsien* banks were established in 1915. Because of the lack of an overall plan and shortage of trained personnel, many *hsien* banks were forced to liquidate, while others failed. Up to the first half of 1937, *hsien* banks known to be in operation numbered only 28, of which 13 were in Chekiang province.

The government's efforts to readjust local finance and to foster farm cooperative enterprises during the war, helped to develop the *hsien* banks. The law governing the establishment of *hsien* banks was promulgated by the National Government on January 20, 1940. A month later, the Ministry of Finance ordered the provincial governments to assist the *hsien* governments in extending the program. On December 6, 1940, the ministry further announced a model *hsien* bank constitution for the reference of *hsien* governments. Since the promulgation of the *Hsien* Bank Law, Szechwan, Honan and Shensi made the bigest development in *hsien* banking. In the spring of 1945 the Ministry of Finance made revisions in the *Hsien* Bank Law as called for by changing conditions and submitted the draft of the revised law to the government for legislative procedure.

At the end of 1944, *hsien* banks registered with the Ministry of Finance numbered 249. Of these, 11 had been granted permission to increase their capital.

The number of provincial, municipal, and *hsien* (county) banks has further increased in the postwar period. Up to the end of 1947, there were 25 provincial, 16 municipal, and 488 *hsien* banks.

COMMERCIAL BANKS

Up to August 19, 1948, there were no less than 6,000 commercial banks of all sizes in China. The great majority of them were native banks called *yin hao* and *chien chuang*, functioning in many cities and towns where there were no other banking facilities. These native banks perform a useful function in the Chinese banking system.

The *yin hao* are actually first-class native banks whose capitalization is greater than that of the *chien chuang* and less than that of the modern banks. Both the *yin hao* and the *chien chuang* are local financial organizations run along conservative lines.

Up to the end of 1947, there were 190 Chinese commercial banks registered with the Ministry of Finance. Of these, 67 had their head offices in Shanghai. The oldest commercial banks were established in the late Manchu dynasty; the most recent in 1947.

TABLE 18.—PROVINCIAL BANKS (1948)

Name of Bank	Date of Establishment	Head Office
Shansi Provincial Bank	1919	Taiyuan
Shantung Provincial Bank	1914	Tsinan
Szechwan Provincial Bank	1935	Chengtu
Kansu Provincial Bank	1939	Kaolan (Lanchow)
Anhwei Provincial Bank	1936	Hofei
Kiangsi Provincial Bank	1928	Nanchang
Kiangsu Provincial Bank	1912	Shanghai
Kiangsu Provincial Agricultural Bank	1928	Chinkiang
Sikang Provincial Bank	1939	Kangting
Hopei Provincial Bank	1929	Tientsin
Honan Provincial Bank	1928	Kaifeng
Chinghai Provincial Bank	1945	Sining
Chekiang Provincial Bank	1923	Hangchow
Shensi Provincial Bank	1930	Sian
Kweichow Provincial Bank	1941	Kweiyang
Hupeh Provincial Bank	1928	Hankow
Hunan Provincial Bank	1929	Changsha
New Futien (Yunnan) Bank	1932	Kunming
Ningsia Provincial Bank	1938	Ningsia
Suiyuan Provincial Bank	1941	Kweisui
Sinkiang Provincial Bank	1930	Tihua
Fukien Provincial Bank	1935	Foochow
Taiwan Provincial Bank	1946	Taipeh
Kwangsi Provincial Bank	1932	Kweilin
Kwangtung Provincial Bank	1924	Canton

Source: Ministry of Finance.

TABLE 19.—MUNICIPAL BANKS (1948)

Name of Bank	Year of Establishment	Head Office
Tientsin Municipal Bank	1930	Tientsin
Taiyuan Municipal Bank	1946	Taiyuan
Peiping Municipal Bank	1936	Peiping
Tzekung Municipal Bank	1946	Tzekung
Chengtu Municipal Bank	1933	Chengtu
Changsha Municipal Bank	1946	Changsha
Kunming Municipal Bank	1943	Kunming
Nanking Municipal Bank	1945	Nanking
Nanchang Municipal Bank	1928	Nanchang
Chungking Municipal Bank	1946	Chungking
Pengpu Municipal Bank	1945	Pengpu
Kweilin Municipal Bank	1943	Kweilin
Hsuchow Municipal Bank	1946	Hsuchow
Canton Municipal Bank	1927	Canton
Lanchow Municipal Bank	1943	Lanchow

Source: Ministry of Finance.

TABLE 20.—*Hsien* (COUNTY) BANKS

Province	Number of *Hsien* Banks	Branches
Szechwan	124	163
Kansu	5	..
Anhwei	44	2
Kiangsi	24	3
Kiangsu	16	..
Sikang	9	..
Honan	69	..
Chekiang	14	3
Shensi	68	4
Kweichow	7	2
Hupeh	35	5
Hunan	9	1
Yunnan	38	..
Fukien	2	..
Kwangsi	12	..
Kwangtung	11	..
TOTAL	487	183

Source: Ministry of Finance.

GOVERNMENT SUPERVISION OVER BANKS

From 1942 to 1945 the government promulgated the following important measfor the supervision of banking operations.

INSPECTION OF BANKS

During the war to prevent banks from engaging in unlawful business dealings, the Ministry of Finance conducted periodic inspections of books and accounts of banks and native banks in and around Chungking and ten nearby cities. In the winter of 1942 a network of bank inspectorates covered 16 cities, namely, Chengtu, Ipin, Neikiang, Wanhsien, Kunming, Kweiyang, Kweilin, Hengyang, Kukong, Kian, Yungan, Tunhsi, Loyang, Sian, Lanchow and Tihwa. The Ministry of Finance cooperated with the National General Mobilization Council which was charged with inspecting accounts of factories and firms operated under government loans. However, with a view to simplifying the banking structures and strengthening the supervisory power of the Central Bank of China over the financial market, the Ministry of Finance, in March, 1945, abolished all of the inspection offices and invested the Central Bank of China with the power of supervision over the operation of all provincial and commercial banks. Supervision of *hsien* banks was vested in the finance departments of various provincial governments while the Ministry of Finance retained the power of inspecting books and accounts of the Bank of China, the Bank of Communications, the Farmers' Bank of China, the Central Trust and the Postal Remittances and Savings Bank. In addition, periodic inspection of the banking conditions in various localities was conducted by men sent out directly by the Ministry of Finance, and the various local branches of the Central Bank of China and the various provincial finance departments were required to report the results of inspection to the Ministry of Finance.

In the postwar period, with the exception of Nanking, Shanghai, Taiwan, and the northeast, the inspection work of banks and native banks in the country has been conducted by the Central Bank of China. The modern and native banks in Nanking and Shanghai have been supervised by appointees of the Ministry of Finance.

With the exception of Taiwan and the northeast, the Central Bank of China has divided the whole country into 29 areas for inspection as follows:

CAPITAL CONVERSION AND INCREMENT

Owing to the inflation of the *fapi*, the original capitalization of all modern and native banks in the country lost their

practical significance. While in 1945, CNC-$50-million or CNC$100-million meant sizeable sums, they represented little value in the fall of 1948. It meant a great loss to the National Treasury as many taxes were levied on the basis of legal capital.

Therefore, after the currency reform of August 19, 1948, the government fixed a minimum capitalization for each type of bank in terms of the Gold Yuan notes, which the latter must raise within a specified period of time or they would be ordered to liquidate.

The government measures concerning the capital augmentation of private banks divided the country into several areas, and fixed a minimum amount for each type of banks in each area. The following is a list of these areas and the corresponding minimums:

1. In Shanghai, Tientsin, and Canton:
   (a) First-class banks both limited and unlimited, minimum capital ..... GY$500,000
   (b) Second-class banks, unlimited 250,000
2. In Nanking, Hankow, Tsingtao, Chungking, Mukden, Sian, Kunming, Chengtu:
   (a) First-class banks, limited and unlimited, minimum capital ..... GY$300,000
   (b) Second-class banks, unlimited 150,000
3. Wuhsi, Soochow, Chinkiang, Wuching, Changshu, Hsuchow, Yangchow, Hangchow, Chinhsien, Shaohsing, Yungkia, Hsiaoshan, Yuyao, Pengpu, Wuhu, Nanchang, Kiukiang, Foochow, Amoy, Chungshan, Nanhai, Hsinhwei, Kaoyao, Toyshan, Swatow, Kweilin, Tsangwu, Changsha, Hengyang, Wuchang, Shashih, Ichang, Neikiang, Ipin, Wanhsien, Luhsien, Loshan, Tzekung, Kweiyang, Tsinan, Kaifeng, Chengchow, Taiyuan, Lanchow, Paoki, Taipeh, Taichung, Penghua, Keelung, and Kaohsiung:
   (a) First-class banks, limited and unlimited, minimum capital ..... GY$200,000
   (b) Second-class banks, unlimited 100,000
4. First-class banks in all cities unlisted in (1), (2) and (3), minimum capital ..... GY$100,000
   Second-class banks 50,000
5. The minimum capital for each class of native banks (*chien chuang*) will be half of that for the corresponding class of modern banks given in (1), (2), (3) and (4).

All banks were asked to meet the minimum requirement within two months after the publication of the measures. Failure would result in the revocation of their business licenses.

It should be pointed out that the minimums were half of what the government had originally fixed for the modern and native banks. However, to make it easier for them to raise the necessary sums, they were allowed to make up 50 percent of the total increase required by their assets. They were further allowed to pool their resources to meet the requirement, though in such cases they would have to operate as a single bank.

The time limit for capital increase was extended to the end of 1949 by the Ministry of Finance. These measures became inapplicable in July, 1949, when the Gold Yuan system was abolished and a new currency, the Silver Dollar or Silver Yuan, was introduced by the government in Canton.

Table 21.—Banking Inspection Areas Defined by the Central Bank of China, 1948.

Name of Area and Central Bank in Charge	Area or Province Under Control
Shanghai Office	Counties around the city
Nanking Office	Kiangsu
Hangchow Branch	Chekiang
Wuhu Branch	Anhwei
Nanchang Branch	Kiangsi
Hankow Branch	Hupeh
Changsha Branch	Hunan
Foochow Branch	Fukien
Canton Branch	Kwangtung
Tsingtao Branch	Shantung
Kaifeng Branch	Honan
Tientsin Branch	East Hopei
Peiping Branch	West Hopei
Chengteh Branch	*Jehol
Kalgan Branch	*Chahar
Kweisui Branch	*Suiyuan
Mukden Branch	*Liaoning, Liaopei and Antung
Harbin Branch	Sungkiang, Hokiang and Heilungkiang
Changchun Branch	*Kirin, Nunkiang and Hsingan
Taiyuan Branch	Shansi
Chungking Branch	East Szechwan
Chengtu Branch	West Szechwan
Yaan Branch	Sikang
Kweiyang Branch	Kweichow
Kunming Branch	Yunnan
Kweilin Branch	Kwangsi
Sian Branch	Shensi
Lanchow Branch	Kansu, Ningsia, and Chinghai
Tihwa Branch	Sinkiang

*Work suspended.

Source: Ministry of Finance.

Control of Interest Rate

During the war the following measures were enforced by the Ministry of Finance to regulate rates of interest:

(1) *Enforcement of Acceptance and Discount Measures* — Clearance of commercial papers or bills was first carried out in Chungking by the Central Bank of China in June, 1942. By August of the same year the total value of bills cleared was CNC$4,315-million, the balance was CNC$872-million and the number of bills cleared was 48,500. By June, 1944, the total value of bills cleared was increased to CNC$9,892-million, the balance being CNC$2,187-million and the number of bills cleared 64,500.

On April 1, 1943, regulations governing the acceptance and discount of bills during the emergency period were promulgated and enforced in 23 cities in Free China. By August, 1944, the new regulations had been extended to all of Free China.

From September, 1942 to May, 1943, the four government banks discounted CNC$3,908-million worth of bills.

(2) *Approval of Re-discount Rate*—In the meantime, a commercial papers' rediscount examining committee was organized by the Ministry of Finance in conjunction with the Central Bank of China and the Joint Administrative Board of the four government banks. The committee approved the rate of re-discount and thereby controlled the market rates of interest.

(3) *Regulation of Interest Rates*—As of January 1, 1943, the Central Bank of China began issuing a daily bulletin on the rates of interest to be observed as the standard for interest chargeable on all bank deposits and loans. The local banks may determine the interest rates on the basis of the daily bulletin and local financial conditions, and submit them to the Central Bank of China for authorization. Extension of loans at exorbitant rates of interest was liable to punishment by bank inspectors of the district concerned.

(4) *Prohibition of Absorption of Deposits by Business Firms*—To kill the black market rates, the Ministry of Finance, the Ministry of Economic Affairs and the Ministry of Justice took joint action to outlaw the receiving of deposits by business firms. In addition, the Joint Administrative Office of the Four Government Banks tried to eliminate the disparity between the black market and official rates of interest.

After V-J Day, the government continued to supervise the bank interest rates throughout the country through the Central Bank of China. The general principle in this supervision has been that the interest rate on deposits must not be greater than the interest rate on loans, which is to be fixed by the local banking guild or association from day to day with the approval of the local branch of the Central Bank of China.

CONTROL OF FOREIGN EXCHANGE

Through the war years the government enforced the policy of absorbing foreign exchange realized from exports, encouraging overseas remittances and restricting the supply of foreign exchange and concluded a number of currency stabilization loans. To shatter the enemy's attempt to absorb the Chinese foreign exchange fund, the government restricted the sale of foreign exchange for the payment of imports.

At the outset of the war the government adopted the foreign exchange stabilization fund system in Hongkong and Shanghai to maintain the credit of *fapi* or legal tender. Early in 1941 a Stabilization Board of China was formed to control the currency stabilization fund provided by the three loans of US$50-million from the United States, £5-million from Great Britain and US$20-million from the government banks. Applications for foreign exchange for commercial purposes according to the official rates had to be approved by the board. Beginning from October 1941, with the promulgation of regulations restricting registered and specially authorized banks in Free China in the selling and buying of foreign exchange commerical concerns could no longer apply for foreign exchange at official rates, but new rates were established for such purposes. On January 1, 1942, the rates were revised to US$5 for CNC$100.

Despite the continual rise of commodity prices the official rate of exchange between the Chinese and the American dollar was maintained at the ratio of 20 to one. To make up for the disparity of value between the two currencies, the Ministry of Finance instituted a compensation measure, effective as of May 1, 1943, allowing a 50% subsidy on remittances in United States currency sent to foreign diplomatic missions, foreign civilians working in China, and families of overseas Chinese. The new measure later was extended to foreign cultural, religious, and philanthropic bodies, members of the Allied armed forces and foreign correspondents. Beginning from January 20, 1944, the subsidy was increased to 100%. The Ministry of Finance raised the subsidy on overseas remittances to 480%, effective July 16, 1945, with a view to encouraging overseas remittances.

In the fall of 1943 the Stabilization Board of China was merged into the Foreign Exchange and Assets Control Commission, then directly under the Executive Yuan. The merger was necessitated by the changing conditions on the financial front. For efficient administrative control the Foreign Exchange and Assets Commission was placed under the direct control of the Ministry of Finance in December, 1943. The Minister of Finance was concurrently chairman of the commission. In March, 1945, the Foreign Exchange and Assets Control Commission was abolished and its work transferred to the Central Bank of China.

The Ministry of Finance, in June, 1945, promulgated successively four new measures governing, respectively, application for foreign exchange by (1) government organs and business, (2) private individuals, (3) industrial and trade interests, and (4) insurance companies. Besides, a provisional measure to foster trade was instituted whereby exporters could purchase and import with the amount of foreign exchange realized from export such commodities as were needed in the country.

After the conclusion of the war, the government lifted foreign exchange controls in order to permit foreign commodities to enter the country to meet the nation's needs. Therefore in 1946 and early 1947, Chinese cities were flooded with foreign goods, especially items made in the U. S. A.

But the heavy drain on the nation's foreign exchange reserves was soon felt, and the supply of imports had to be drastically reduced. Prices of imported goods began to go up, thus affecting the value of the *fapi*. Price fluctuations came in waves. Intervals between waves during the second half of 1947 became shorter and shorter. At the same time, the amplitude of the fluctuations grew wider and wider.

To maintain the value of the *fapi*, the government recalled from circulation as much of it as possible mainly through the sale of gold and industrial materials such as cotton and cotton yarn. In the winter of 1947, the sale of gold as a means of stabilizing commodity prices, and indirectly the value of the *fapi*, reached such proportions that it became obvious that the policy could not be maintained much longer.

Therefore, the government first tightened the money market by suspending all government loans to production enterprises, at the end of November. On February 17, 1947 it announced emergency economic measures prohibiting free transactions in gold and foreign currencies and adjusting the exchange rates between the *fapi* and the U. S. dollar at CNC$12,000 to one. The price of gold was fixed at the same time at CNC$4,800,000 per Chinese ounce.

Prior to the introduction of these emergency measures, export trade had become impossible at the official exchange rate. Various devices, such as the 100% subsidy on exports, were used, but they failed to solve the problem. In the field of import business not only many restrictions were imposed to reduce non-essential imports and to conserve foreign exchange, but ways were also devised in the hope to get the necessary foreign exchange. One of the expediencies used was the export-import link system, which fundamentally was a way to let the exports finance imports.

After the promulgation of these emergency measures the import quota system, still in force late in 1948, was introduced. Quotas for all essential imports licensed by the government and those for which it would supply the foreign exchange needed at the official exchange rates were announced every three months.

Despite government assistance in the form of loans and subsidies, the export trade was again at a standstill. The import trade fared somewhat better with government-provided foreign exchange but the import quota system was neither fair considering the market prices of imported commodities and of industrial raw materials, nor did it provide the quantities of imports the country needed. Under such circumstances, smuggling became rampant, and the black market of foreign exchange went wild and commodity prices rose by leaps and bounds. The purchasing power of the *fapi* continued to deteriorate.

By the middle of 1948, the overall economic situation of the country became once more critical. The government was forced to give up the pegged foreign exchange rates. To make foreign trade possible, and to regain the remittances of overseas Chinese that were almost completely lost, it adopted the foreign exchange surrender certificate system, under which the official foreign exchanges became a basic rate with the difference between it and the realistic open market rate made up in the surrender certificate. The exchange rate of the foreign currency in the certificate was fixed weekly by a board of the Central Bank of China called the Foreign Exchange Equalization Board. The certificate was negotiable between exporters and importers, and its valid date was first limited to one week and later extended to one month.

Not long after the introduction of this new foreign exchange control measure, the inflation of the *fapi* took on a new viciousness. The general economic situation of the country became so unstable that to avert a general economic collapse some kind of currency reform became imperative.

On August 19, 1948, the government announced its monetary reform plan in four sets of regulations. A new currency called the Gold Yuan was introduced to replace the *fapi*. The rates of exchange between the new currency and foreign currencies were pegged at the basic rate of four Gold Yuan to one U. S. dollar, and the price of gold was fixed at GY$200 per Chinese ounce.

The new currency met with initial success. Commodity prices that had fluctuated for nearly two years became stable at once, and an increase in exports was registered. But due to many other factors, this success was short-lived. Two months later, a new spurt in the price spiral broke out in violence and the nation was brought face to face with a new economic crisis.

To meet the situation, the government revised the regulations of the currency reform by devaluating the buying power of the Gold Yuan, and backing it up with Gold Yuan coins. The rates of exchange between the devaluated Gold Yuan and foreign currencies were readjusted in November, 1948, at GY$20 to one U. S. dollar. In the field of foreign trade, the export-import link system was reinstituted.

Control measures continued with the adoption of the Silver Dollar currency in July, 1949.

INSURANCE

With but a short history, insurance in China has great possibilities. In Chungking, the number of insurance companies grew from a mere handful before the war to 51 companies at the end of June, 1945. Of this number only three dealt in life insurance, one was engaged in fidelity insurance and one in insurance against personal accidents, while the rest were all properly (i.e., fire and marine) insurance companies.

Government Supervision

Coincident with this growth of new companies the Chinese Government has tightened its supervision of the insurance business by promulgating and putting into effect as of September 25, 1943, a set of regulations governing insurance enterprises. These wartime regulations were largely based on the *Insurance Law* (revised and promulgated in 1937) and the *Insurance Business Act* (promulgated in 1935). The salient points of these emergency regulations, from which government insurance enterprises were, however, exempted (Art. I), were as follows:

1. Insurance companies are not to engage in multiple lines of insurance, such as life and property insurance, concurrently; and they are not allowed to engage in undertakings other than insurance.

2. The capitalization of an insurance company shall not be less than CNC$5-million with shares paid in cash. Existing

companies with capitalization less than the required minimum are to make up the deficit within a time limit set by the Ministry of Finance.

3. A deposit is to be made with the National Treasury at the time of registration.

4. Utilization of the capital funds and liability reserve funds of an insurance company is to be confined to the following:

(a) Deposit with government banks;
(b) Deposit with state-operated trust companies or savings organizations;
(c) Life insurance policy loans;
(d) Loans against guaranteed and marketable securities;
(e) Loans against real estate as first lien;
(f) Investments in government bonds and/or private corporation bonds;
(g) Investment in productive enterprises.

It is stipulated that loans under items (c) and (d) above shall conform to government regulations for ordinary bank loans. Investments in government bonds under item (e) shall not be less than one-fourth of the total capital funds and liability reserve funds of a company. Investments under items (e) and (g) shall not exceed one-tenth of the aggregate amount of capital and liability reserve funds; and investments under item (h) shall not exceed one-fourth of the said aggregate amount.

5. Uniform basic policy conditions of the various kinds of insurances are to be prescribed by the Ministry of Finance.

6. Insurance companies are required to file monthly and periodically returns of business done and results of operations to the Ministry of Finance.

7. Insurance brokers and accessories are to apply to the Ministry of Finance for registration.

Following the promulgation of the above wartime regulations the Government made public in April, 1944, detailed rules governing their operation. Briefly they provided for the following:

(a) Insurance companies applying for registration are to pay a registration fee and a license fee on the following scale:

(1) Registration fee of CNC$1,000 on capitalization of CNC$5-million or less; and an additional sum of CNC$1,000 on any amount in excess of CNC$5-million, and/or on each CNC$5-million in excess thereafter.

(2) License fee of CNC$50.

(b) The deposit to be made with the National Treasury at the time of registration is to be 15% of the total amount of paid-up capital. Where the paid-up capital exceeds CNC$5-million, a deposit of five percent is to be made on the portion in excess, but in no case shall the total amount of deposit exceed CNC$2-million. Deposits may be made in cash or in government securities upon approval of the Ministry of Finance.

(c) Unearned premium reserves are to be calculated on the following bases:

(1) On fire insurance contracts of one year's duration—40%;
(2) On marine and transportation insurance contracts—20%;
(3) On hull policies—60%;
(4) On other kinds of property insurance policies—50%.

Government Insurance

During the war the government was actively engaged in various lines of insurance. Outstanding were the two forms of war risk insurance, i.e., War Risk Transportation Insurance and Land War Risk Insurance, both of which were intended as wartime measures. The writing of war risk transportation insurance was begun almost immediately after the commencement of the Sino-Japanese hostilities in 1937, when the need became apparent for some protective insurance measure against the risks of war and of overland (including waterways) transportation in the wholesale removal of factories and properties to the interior. A sum of CNC$10-million (subsequently increased to CNC$20-million) was allocated by the Ministry of Finance as capital for this emergency project, and the administration of the scheme was entrusted to the Central Trust, which also operated a property insurance department Operation of this scheme during the eight years of war brought generally satisfactory results, both as a business venture and a fiscal project.

As the War Risk Transportation Insurance scheme was intended to cover only goods in transit, its usefulness of a general nature was, therefore, somewhat limited. Accordingly, in November, 1939, the government again initiated another war risk insurance measure, known as Land War Risk Insurance, which offered coverage against air raids and consequent fire risks to investors and producers outside of enemy-occupied areas. Its scope of coverage embraced (1) stored commodities (limited to agricultural, industrial and mining products and goods having values in foreign trade); (2) productive machineries and raw materials (limited to those in the possession of the underwritten factories); (3) construction materials (limited to those in warehouses or in the possession of contractors and engineers in the course of construction); (4) factory buildings, government offices, school properties and other designated building structures; and (5) conveyances of transportation such as steamships, motor trucks, junks, etc. Administration of the scheme was also entrusted to the Central Trust.

Aside from the two war risk insurance schemes mentioned above, the Central Trust also has operated a property insurance department, carrying fire, marine and fidelity insurances, and a life insurance department. The property insurance department has enjoyed a tremendous growth in recent years, and in business volume it now surpasses any other private insurance company in the country. It has the added advantage of a somewhat exclusive field in government-owned properties and in the vast category of goods and commodities now under government monopoly and/or control. The life insurance department has also pushed its programs vigorously, particularly in group life insurance and general insurance to the public, requiring no medical examination. In spite of the difficulties of the currency situation which have somewhat mitigated its efforts, it has now probably the largest amount of life insurance outstanding for any single life company in the country.

The Postal Remittances and Savings Bank and the four government banks all handle insurance of various kinds. The Bank of China owns and operates the China Insurance Co., Ltd., dealing in property insurance, and also the China Life Insurance Co., Ltd., dealing in life insurance. The Farmers' Bank of China owns and operates the China Agricultural Insurance Co., Ltd., while the Bank of Communications is in control of the China Pacific Insurance Co., Ltd. The Postal Bank operates the simple life insurance.

Private Companies

Up to the end of 1946, there were altogether 184 insurance companies with a total paid-up capital of CNC$2,437,500,000. Of them 38 had branches, totalling 278. Guilds of the insurance business were established in Shanghai, Chungking, Kunming, Nanking, Tzukung, Tientsin, Tsingtao, Peiping, Hankow, Hanchow, Soochow, and Yungkia (Wenchow). Their national association was formally inaugurated on July 14, 1946.

Before the war, the major portion of the insurance business in China was in the hands of foreign insurance companies. Besides their vast experience in the business, they were financially stronger than Chinese firms.

Before 1943 foreign insurance companies enjoyed extraterritoriality. Therefore, they were not under the control of the Chinese government as Chinese insurance companies were. Since the abolition of extraterritoriality they have been subject to the same control as the Chinese firms.

Up to the end of 1946, 50 foreign insurance companies in China had been registered with the Ministry of Finance, including 22 American, 13 British, three French, one Swiss, one Cuban, one Canadian, and seven Chinese firms. The Chinese companies classified as foreign companies had their head offices in Hongkong.

In addition there were in China 39 branches of foreign insurance companies. Another 11 foreign companies had appointed agencies in China. The American Asiatic Underwriters alone is the agency of nine of these eleven foreign insurance firms.

Life insurance business is still in its infancy in China. Even before the war, when the economic situation of the country was comparatively stable, it lagged far behind other types of insurance. During the war, with commodity prices going up all the time business was even duller. Up to the end of 1946, there were only seven life insurance companies in China with an aggregate capital of CNC$31-million.

In view of the vast population of China, the seven life insurance companies are obviously inadequate. The Chinese Government is cognizant of this fact.

The re-insurance business in China is controlled entirely by the Central Trust. The latter started to handle re-insurance in 1945 with a fund of CNC$1-billion which became inadequate in the postwar period, and in March 1946, an additional CNC$4-billion was added to it.

From September, 1945, when the Central Trust began to underwrite re-insurance business, up to the end of 1946, its total volume of business amounted to CNC$562,200,610,000. Altogether 82 insurance companies participated in the business, and 32 had been permanent fire re-insurance underwriters, and 36 water re-insurance underwriters. The maximum amounts in different currencies reinsured during the period was CNC$2,222,790,000, Piastre 175,000 and Singapore $17,500 for fire, and CNC$2,392,140,000 and Piastre 200,000 for marine. During the said period there was a net profit of CNC$171,910,000 made by the Central Trust.

CHAPTER 22

COOPERATIVES

COOPERATIVE ADMINISTRATION

Before 1927, the cooperative movement in China was privately sponsored. The National Government took a keen interest in the movement as a means of developing rural economy. Immediately after the Northern Expedition in 1928, the Kuomintang ordered its branches throughout the country to make the cooperative movement a part of their activities.

Since then, the government has included cooperative enterprises in its administrative program. The movement is not only a device to train the people in managing their own affairs and in democratic methods but a check on usurious practices in rural districts.

A department of cooperatives was created in the Ministry of Industry in 1935. After the outbreak of the war in 1937, its functions were divided between the department of agriculture and forestry of the Ministry of Economic Affairs and the Agricultural Credit Administration. These functions were taken over by the Central Cooperative Administration of the Ministry of Economic Affairs in 1939. In 1940, the C.C.A. became part of the Ministry of Social Affairs. In 1949, upon the abolition of the Ministry of Social Affairs, cooperative affairs were put again under the charge of the Ministry of Economic Affairs.

Up to 1948, regional cooperative administrations had been set up in 15 provinces. Other provinces maintain cooperative bureaus either under their office of social affairs, or civil affairs or finance departments. In the *hsien* and municipalities, there are special offices in charge of cooperative administration.

In 1947 the government adopted a five-year plan for the development of cooperative enterprises, aiming at 350,651 working cooperatives and 1,464 cooperative banks.

DEVELOPMENT OF COOPERATIVES

At the end of August, 1948, there were 170,608 cooperatives in 27 provinces and seven special municipalities, with a total membership of 23,764,000 and an aggregate capital of GY$223,666. Of this number, 167,340 were working cooperatives, while the rest were either local cooperative federations or mutual aid or probational societies.

According to statistics of the Central Cooperative Administration, Szechwan ranked first with 26,632 cooperatives and 2,980,000 members. This was the result of eight years of promotion efforts during the war. Kiangsi had the largest membership of 2,982,000, though its number of societies was comparatively small. The poorest province, so far as the cooperative movement is concerned, was Kirin (See Table 1.)

The cooperative movement made rapid progress after 1928. From 584 societies, the number increased to 46,983 in 1937. Great increases were registered during the war years (See Table 2.)

The percentage of functional distribution can also be seen from Table 2. Credit cooperatives took the lead in prewar years as the lack of capital funds was a prevalent condition in China's rural areas. After the outbreak of the war, the government capitalized on the cooperatives as a means to develop rural enterprises. As a result, the percentage of credit cooperatives dropped, and that of agricultural production societies increased from 5.7 percent in 1937 to 22.4 in August, 1948. The number of consumers' and marketing cooperatives has also been increased.

Agricultural cooperative societies included those engaged in the production of rice, wheat and other cereals. The industrial cooperatives largely produced textiles.

TABLE 1. DISTRIBUTION OF COOPERATIVE SOCIETIES (AUGUST, 1948)

Province or Municipality	Number of Societies	Number of Members (in 1,000)	Capital (GY$)
Provinces			
Kiangsu	2,367	674	33,244.81
Chekiang	8,079	1,372	1,954.03
Anhwei	11,151	1,080	6,426.68
Kiangsi	6,136	2,982	4,304.25
Hupeh	14,192	1,359	11,628.70
Hunan	15,404	1,335	1,017.16
Szechwan	26,632	2,980	16,786.43
Sikang	1,396	113	496.38
Hopei	1,009	246	2,848.71
Shantung	823	201	1,814.78
Shansi	640	247	1,987.78
Honan	16,278	1,653	2,465.74
Shensi	7,125	1,512	1,006.08
Kansu	5,980	658	2,653.71
Chinghai	285	71	5.70
Fukien	8,522	774	5,792.24
Taiwan	585	727	94,071.21
Kwangtung	15,462	1,357	6,929.84
Kwangsi	10,659	1,199	1,200.82
Yunnan	8,419	629	320.26
Kweichow	6,021	1,031	260.90
Liaoning	75	28	1,221.46
Kirin	29	30	108.65
Jehol	65	28	141.07
Chahar	230	140	2,245.70
Suiyuan	863	93	1,244.14
Ningsia	813	84	87.63
Municipalities			
Nanking	137	153	2,996.10
Shanghai	139	185	2,479.71
Peiping	332	237	86.48
Tientsin	358	275	1,392.86
Tsingtao	239	123	9,381.30
Chungking	48	43	251.17
Mudken	115	145	4,823.19
TOTAL	170,608	23,764	223,666.67

Source: Central Cooperative Administration

To encourage the movement in the pacification areas (areas affected by the communist rebellion), the Central Cooperative Administration established a Cooperative Enterprises Advisory Corps, which started work in February, 1947, in northern Kiangsu, northern Anhwei, Shantung, and Hopei. Four mobile units were sent out to advise and direct the organization program. As a result of their work, 74 cooperatives were organized in 1947 in northern Kiangsu with 33,339 members, 55 in northern Anhwei with 55,035 members, 26 in Shantung with 20,558 members, and 55 in Hopei with 87,900 members.

COOPERATIVE FINANCE

The Central Cooperative Bank was established in November, 1946. It planned to set up within five years 27 provincial or municipal branches and 190 sub-branches in the various *hsien*. In June, 1948, there were nine provincial or municipal branches located in Shanghai,

TABLE 2. DEVELOPMENT OF COOPERATIVES

1937-1948

Year	No. of Societies	No. of Members (in 1,000)	Percentage of Functional Distribution								
			Agricultural Production	Industrial Production	Supply	Marketing	Consumers'	Public Utilities	Credit	Insurance	Others
1937	46,983	2,140	5.7	..	0.4	2.5	0.4	0.1	73.6	..	17.3
1938	64,565	3,113	11.0	..	0.4	2.3	0.4	..	85.9	..	..
1939	91,426	4,367	6.8	1.7	0.4	1.8	0.5	0.4	88.3	0.1	..
1940	133,542	7,237	7.0	1.7	0.4	2.0	1.4	0.3	87.0	0.1	0.1
1941	155,647	9,374	9.1	1.5	0.6	1.8	1.7	0.3	84.9	0.1	..
1942	160,393	10,142	7.0	5.5	0.6	1.8	2.3	0.3	82.4	0.1	..
1943	166,820	13,803	14.2	4.6	8.1	10.3	10.1	2.6	48.1	2.0	..
1944	171,681	15,825	16.8	5.0	8.7	10.6	13.0	2.8	41.2	1.9	..
1945	172,053	17,232	17.03	4.9	9.4	11.0	14.0	2.8	38.0	1.9	..
1946	160,222	19,625	19.2	6.0	9.9	11.1	14.9	2.6	34.1	2.2	..
1947	167,387	22,134	21.7	4.8	10.1	13.7	13.8	2.8	30.9	2.2	..
1948 (Aug.)	170,609	23,764	22.4	4.8	10.4	13.9	13.9	2.7	29.8	2.1	..

Source: Central Cooperative Administration

Peiping, Paoting, Tsinan, Kaifeng, Wuchang, Changsha, Canton and Mukden, and 24 sub-branches.

The Central Cooperative Bank works closely with the Farmers' Bank of China in the extension of cooperative credit. After its network throughout the country is completed, it will be responsible solely for cooperative finances.

About 500 local cooperative banks have been organized during the past 15 years, but many of them have suspended business. Provincial or municipal cooperative banks in operation in late 1948 included those in Szechwan, Kiangsi, Chekiang, Fukien, Kwangsi, Yunnan, Kansu, Hunan and Chungking.

Outstanding cooperative loans totalled GY$810,150 in August, 1948. The largest portion, GY$628,668.77, was extended to agricultural production cooperatives. Marketing cooperatives, taking GY$100,376.45 of the total, ranked second. The remaining loans were extended to: credit cooperatives, GY$41,369.58; industrial production, GY$14,434.19; consumers', GY$11,001.43; public utilities, GY$9,477.44; supply, GY$1,263.40; and all other types of cooperatives, GY$3,559.70.

INDUSTRIAL COOPERATIVES

Industrial cooperatives were a wartime innovation. They were sponsored by a group of Chinese and foreigners in Hankow in 1938. The organ in charge is the Chinese Industrial Cooperatives. Its object was to assist in industrial production during the war period and to establish basis for small cooperative industries throughout the country. The relief of war refugees was another of its functions.

During the war years, the C.I.C. was administered by three regional offices, namely, the Northwest Headquarters, comprising Shensi, Kansu, Ningsia, Chinghai, Hupeh, Shansi, and Honan; the Southwest Headquarters, comprising Szechwan, Sikang, Yunnan, and Kweichow; and the Southeast Headquarters, comprising Hunan, Kiangsi, Kwangsi, Kwangtung, Fukien, Chekiang, and Anhwei. The C.I.C. head office was first located in Hankow and later in Chungking. In 1946 it was moved to Shanghai. At one time it controlled 1,700 industrial cooperatives. Since the end of the war, its membership has greatly decreased. At the end of 1948 there were less than 500 units.

CHAPTER 23

FOREIGN TRADE

GENERAL REVIEW

China's foreign trade has been characterized by an annual deficit. Through various measures such as imposing restrictions on imports of luxuries and non-essential commodities, adoption of import-export link system, and encouraging and aiding industries producing export goods, the government has in recent years endeavored to reduce the annual excess of imports over exports.

Foreign trade, which was greatly reduced during World War II, began to increase in volume shortly after V-J. During 1946, China's imports amounted to CNC$1,501,165,246,000 (equivalent to US$560,579,822 at the official rate of exchange) as against CNC$412,111,811,000 (equivalent to US$148,878,808) of exports. The import excess was CNC$1,089,053,435,000 (equivalent to US$411,701,014).

Imports during 1947 totalled CNC$10,681,326,574,000 (equivalent to US$480,156,756) as compared to CNC$6,376,504,297,000 (equivalent to US$230,523,980) of exports, thus showing an unfavorable balance of CNC$4,304,822,277,000 (equivalent to US$249,632,776).

In 1948 the trade situation showed definite improvement. While in 1947 imports accounted for 63% of the combined foreign trade value and exports only 37%, imports in 1948 dropped to 53% and that of exports rose to 47%. In the first eight months of 1948, imports totalled CNC$189,662,591,175 and exports amounted to CNC$170,513,879,526. Following adoption of the Gold Yuan as the national currency in August, 1948, trade figures beginning August were in terms of the new currency. During the last four months of 1948, imports amounted to GY$527,805,679, and exports to GY$926,048,779. The favorable trade balance for this four-month period was nearly GY$400-million. This favorable balance was largely the result of a phenomenal rise in exports in December.

The foreign trade situation from January to June, 1948, is represented in the following table. (Data for subsequent periods not yet available at the time of publication of this edition.)

TABLE 1.—CHINA'S FOREIGN TRADE, JANUARY TO JUNE, 1948
(Unit: 1,000 for C.N.C. Value)

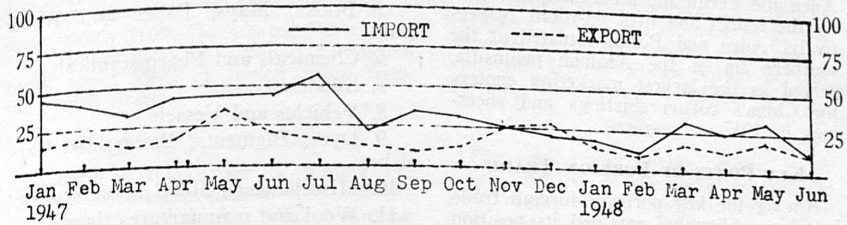
Period	Import	Export
January	C.N.C.$ 2,080,397,006	C.N.C.$ 1,738,662,318
	(U.S.$ 19,473,000)	(U.S.$ 16,274,000)
February	C.N.C.$ 1,939,006,087	C.N.C.$ 1,724,455,242
	(U.S.$ 14,078,000)	(U.S.$ 12,230,000)
March	C.N.C.$ 6,557,504,373	C.N.C.$ 3,515,126,328
	(U.S.$ 32,328,000)	(U.S.$ 17,330,000)
April	C.N.C.$ 7,877,868,683	C.N.C.$ 5,290,117,498
	(U.S.$ 25,051,184)	(U.S.$ 16,823,001)
May	C.N.C.$12,837,367,158	C.N.C.$ 7,681,345,652
	(U.S.$ 30,863,581)	(U.S.$ 18,467,456)
June	C.N.C.$10,264,412,611	C.N.C.$10,124,575,419
	(U.S.$ 22,587,445)	(U.S.$ 22,281,925)

Note: Figures of U. S. dollars for January to May, 1948, were estimated on the basis of the average market rate and for June, 1948, on the Foreign Exchange Equalization Fund Committee's cover rate plus the price of the Exchange Surrender Certificate.

Source: Chinese Maritime Customs

The following chart shows the fluctuations of China's import and export trade during the period from January 1947 to June, 1948.

CHINA'S FOREIGN TRADE, JANUARY, 1947-JUNE, 1948



Note: Figures for January to July, 1947, were estimated on the basis of the official rate of exchange; for August, 1947, to May, 1948, on the average market rate; and for June, 1948, on the Foreign Exchange Equalization Fund Committee's cover rate plus the price of the Exchange Surrender Certificate.

FOREIGN TRADE IN 1946 AND 1947 COMPARED

A comparison of China's foreign trade in 1947 with that of 1946 shows that while her imports in 1947 registered a drop of 14% her exports increased by 53%, representing a decrease of import excess by 38%. This was due to the government's policy of restricting imports and encouraging exports.

Although there was a general decrease of 14% in the import total in 1947, the importation of gasoline, liquid fuel, kerosene oil, textile machinery, sulphate of ammonia, railway sleepers, rice and wheat flour registered an increase over the 1946 figures. Raw cotton was still the most predominant commodity among 1947 imports, but the total fell below that of 1946. Other imports in 1947 that showed a decrease as compared with 1946 figures included cigarette paper, paper and newsprint, drugs, and motor tractors.

The export trade showed clear signs of revival in 1947 when important commodities such as tung oil, tea oil, hogs, fresh eggs, piece goods, silk piecegoods, cotton yarn, tungsten ore, antimony regulus, silks, green tea, cottonseed cakes, and shelled groundnuts all were sent abroad in much larger quantities than in 1946. Tung oil occupied the first place in the export list. Bristles and raw silk, important export items in prewar days, suffered setbacks in 1947 in comparison with 1946 totals.

COUNTRIES TRADING WITH CHINA

During the two years after V-J Day, the United States led the countries from which China obtained her imports. India came second, with Great Britain third. But imports from the United States in 1947 actually registered a decline from the 1946 peak, while both India and Great Britain edged upward in China's import list.

During 1946, 57.16% of China's total import value came from the United States, 8.75% from India, and 4.59% from Great Britain. By 1947, 50.15% of the total import value came from the United States, 9.04% from India, and 6.86% from Great Britain. Next in import importance in 1946 came Hongkong and Brazil. But in 1947, Canada and Iran replaced Hongkong and Brazil as the fourth and fifth countries of importance. This was largely due to the large quantities of Canadian paper and newsprint and wheat flour and Iranian gasoline and liquid fuel China imported that year.

In her export trade during 1946, China dealt chiefly with the United States, Hongkong, and India in that order. During 1947, Hongkong occupied first place, the United States second, Great Britain third, and India sixth. The change of leading positions was mainly caused by the large quantities of tung oil, hogs, piecegoods, cotton yarn, and tea oil exported to Hongkong, far outweighing the quantities sent to the United States that year.

During 1946, China's net export to the United States constituted 38.71% of the total export value; to Hongkong, 28.25%; to India, 5.37%. During 1947, 34.18% of

the export value total went to Hongkong, 23.31% to the United States, 6.56% to Great Britain. For 1946, the U.S.S.R. and Great Britain ranked the fourth and fifth in China's export. The U.S.S.R. went to fourteenth place in 1947 while Aden and Perim and the Philippines took up the fourth and fifth positions respectively. Aden and Perim, situated at the southern tip of the Arabian peninsula, served as the largest marketing centers for China's cotton shirtings and sheetings in 1947.

Key Ports of Foreign Trade

Among the key ports of foreign trade in China, Shanghai retained its position of first importance during the period under review. During 1946, Shanghai accounted for 85.33% of the entire import value and 61.95% of the entire export value. In 1947, Shanghai handled 74.77% of China's total imports and 60.39% of her total exports.

The chief trading port in north China south China were Canton and Kowloon. Canton was second only to Shanghai in the import trade in 1946. But by 1947, Kowloon assumed the leading position in both imports and exports in south China due to the reopening of the Canton-Hankow railway as the main trade artery to central China. During 1946, imports through Kowloon represented only 2.51% of the total foreign trade while exports represented only 2.02%. By 1947, Kowloon accounted for 7.84% of China's entire import value and 14.17% of the total export value.

The chief trading port in north China during 1946 and 1947 was Tientsin. Its import trade during 1946, 3.05% of the national total, was next only to that of Canton while its export trade, 11.15% of the total, was next to that of Shanghai. During 1947, Tientsin's import, 4.23% of the national total, elevated it to second place in importance but its export, 7.93% of the total, fell behind Kowloon. The drop was due to the unstable situation in north China.

CHIEF IMPORTS

According to the returns of China's foreign trade prepared by the Chinese Maritime Customs, the commodities imported are classified into 32 groups, under which are listed 483 different kinds. The outstanding imports to China after the war are included in 15 groups which in 1947 constituted 96% of the total import value. They are, in order of importance, as follows:

1. Raw Cotton, Cotton Yarn, and Cotton Thread
2. Candles, Soap, Oils, Fats, Waxes, Gums, and Resins
3. Machinery and Tools
4. Metals and Ores
5. Books, Maps, Paper and Wood Pulp
6. Chemicals and Pharmaceuticals
7. Sundries
8. Vehicles and Vessels
9. Dyes, Pigments, Paints, and Varnishes
10. Miscellaneous Metal Manufactures
11. Wool and manufactures thereof
12. Timber
13. Cereals and Flour
14. Tobacco
15. Flax, Ramie, Hemp, Jute, and manufactures thereof.

Raw Cotton, Cotton Yarn, and Cotton Thread

The importation of this group of commodities into China during 1947 accounted for 18.5% of the total import value, heading the list of the entire import trade. Among these commodities, raw cotton was predominant, totalling 1,212,357 quintals and constituting 99% of the import value of the whole group. But, in comparison with the import of raw cotton in 1946 which totalled 2,813,716 quintals, the 1947 figures showed a marked decrease.

Raw cotton was imported from the United States, India, Brazil, Egypt, the Union of South Africa, Rumania, British East Africa, Burma and Mexico in that order of importance. During 1947, raw cotton imported from the United States amounted to 615,317 quintals, 50% of China's total import in quantity and 44% in value of this group: from India, 395,871 quintals, 33% in quantity and 37% in value; and from Brazil, 154,151 quintals, 12% in quantity and 14% in value.

Candles, Soap, Oil, Fat, Waxes, Gums and Resins

There are 20 items included in this group. The total in this group accounted for 15.5% of the entire import value for 1947. Most outstanding import items in this group were oils including liquid fuel, gasoline, kerosene oil, lubricating oil, coconut oil, linseed oil, and codliver oil. But liquid fuel, gasoline, kerosene oil and lubricating oil constituted the bulk of the import.

Liquid fuel, with an import total of 1,207,140 tons, came from Iran, the United States, Aden and Perim, and Saudi Arabia in that order of importance. The import total of gasoline was 542,619,112 liters, purchased from the United States. Iran, Saudi Arabia, Singapore, and Aden and Perim. Kerosene oil, the import total of which amounted to 379,822,154 liters, came mainly from the United States and Iran. Lubrication oil totalled 63,608,886 liters, about 99% of which came from the United States.

Machinery and Tools

Included in this group of import are 18 items which represented 8.3% of the total import value for 1947. Among them, textile machinery and parts, machinery and parts n.o.r. (not otherwise recorded) and prime movers and parts were most outstanding. During 1947, there were 112,076 quintals of textile machinery and parts imported from the United States, Great Britain, and Switzerland. Machinery and parts not otherwise recorded totalled 178,274 quintals, mainly purchased from the United States and Great Britain. Prime movers and parts amounted to 43,271 quintals, mainly purchased from the United States, Great Britain, Switzerland and France.

Metals and Ores

There are 46 items in this category, with a total import value of 7.4% of the national total. The most outstanding items included iron and steel rails; structural iron or steel, fabricated for use; ungalvanized iron and steel n.o.r.; iron and steel bars; aluminum; tinned iron plates; copper wire; and zinc. Imports under this group were mainly ordered from the United States, Belgium, Great Britain and Canada.

Books, Maps, Paper and Wood Pulp

The total import value of this group which consists of 22 items accounted for 6.1% of the national total for 1947. The principal items were ordinary printing paper and newsprint; cigarette paper; drawing, document, bank-note, and bond paper; wood pulp; parchment, glascine, pergamyn and grease-proof paper; printing paper (free of mechanical wood pulp); printed, engraved, or manuscript books and music (incl. newspapers and periodicals); and paperware and all articles made of paper, n.o.r. Imports under this group mainly came from the United States, Canada, Norway, and Sweden.

Chemicals and Pharmaceuticals

The total import value of this group which consists of 25 items accounted for 5.9% of the entire import value for 1947. The most outstanding items included chemicals and chemical compounds n.o.r.; sulphate of ammonia; caustic soda; medicines, drugs, etc.; chemical or artificial fertilizers, n.o.r.; and chlorate of potash. Imports under this group came mainly from the United States, Great Britain, Canada, Hongkong, and Belgium.

Sundry

The total import value of this group which consists of 46 items represented 5.5% of the entire import value of 1947. The most outstanding items in this group included old, waste, and crude India-rubber and guttapercha; rubber pneumatic tires for motor vehicles; miscellaneous goods and sundries, n.o.r.; rubber boots and shoes (including soles and heels); photographic plates, paper, and films; asbestos and manufacturers thereof; and building materials, n.o.r. Imports under this group came mainly from the United States and Singapore.

Vehicles and Vessels

The total import value of this group which consists of 12 items represented 5.3% of the entire import value for 1947. The most outstanding items were motor tractors, trailers, and trucks (including chassis); locomotives and tenders; motor cars and buses (including chassis); motor-car parts and accessories (not including tires and tubes); and aircraft and accessories (including those for military use). Eighty percent of the total import of this group came from the United States, the rest from Great Britain and France.

Dyes, Pigments, Paints and Varnishes

The total import value of this group which consists of 33 items represented 4.6% of the entire import value for 1947. The important items in this group included aniline dyes and other coal tar dyes n.o.r.; sulphur black; printing inks; pigments, n.o.r.; and artificial indigo. Imports under this group came mainly from the United States, Great Britain and Switzerland.

Miscellaneous Metal Manufactures

The total import value of this group which consists of 32 items represented 4% of the entire import value for 1947. Important items included telephonic and

telegraphic instruments and parts (not including radio sets and parts); scientific instruments or apparatus, and parts or accessories, n.o.r.; radio sets and parts; insulated wire; electrical appliances, n.o.r.; electrical fittings, fixtures, and materials, n.o.r.; accumulators and dry cells, n.o.r.; and lamps and lampware. More than 67% of the import of this group came from the United States, the rest from Great Britain and France.

Wool and Manufactures thereof

The total import of this group which consists of 20 items represented 3.6% of the entire import value for 1947. The outstanding items included wool, carded or combed wool, and waste wool; pure or mixed woolen piece goods, n.o.r.; overcoatings, tweeds, and homespuns; yarn and cord (incl. Berlin wool); and serges. Imports under this group came mainly from the United States, Great Britain and Australia.

Timber

The total import value of this group which consists of 10 items accounted for 3.3% of the entire import value for 1947. The three most prominent items were railway sleepers, sawn softwood, and softwood hewn rough and in round logs. Fifty-seven percent of the total import value of this group came from the United States while Japan sent 30%.

Rice and Flour

The total import value of this group consisting of seven items in all represented 3.3% of the entire import value for 1947. The most outstanding items were rice and paddy and wheat flour. Rice and paddy imported mainly from Burma and Siam constituted 57% of the total import value of this group while wheat flour accounted for 42%, mainly imported from Canada and the United States.

Tobacco

The tobacco group consist of five items. Its total import value for 1947 constituted 2.8% of the entire import total. The most important item in this group was tobacco leaf which accounted for 90% of the import total of this group. The main supplier of tobacco leaf was the United States. Other import items of this group included tobacco, n.o.r.; cigarettes, prepared tobacco in tins or packages; and cigars.

Flax, Ramie, Hemp, Jute and Manufactures thereof

There are nine items in this group, consisting of 2.1% of the total import value for 1947. The important items were new gunny bags, mainly imported from India and accounting for 60% of the total import value of this group; raw jute; goods made of flax, ramie, hemp, or jute, n.o.r.; sheer linen; and hessian cloth.

A quantitative comparison of various principal imports in 1946 and 1947 is summarized in Table 2 on page 507.

CHIEF EXPORTS

Chinese exports to foreign countries are divided into 31 groups of 356 different items according to the Chinese Maritime Customs. The most outstanding Chinese exports are included in 12 groups which constituted 89% of the total export value for 1947. They are listed in their order of importance as follows:

1. Oils, Tallow, and Wax
2. Animals and Animal Products
3. Piecegoods
4. Yarn, Thread, and Plaited and Knitted Goods
5. Ores, Metals, and Metallic Products
6. Textile Fibers
7. Beans and Peas
8. Tea
9. Sundries
10. Chemicals and Chemical Products
11. Hides, Leather, and Skins (Furs)
12. Other Textile Products

Oils, Tallow and Wax

Oils, tallow and wax including 11 items accounted for 19.2% of the total export value for 1947. Among these items, tung oil took the leading position followed by tea oil. The tung oil export totalled 352,638 quintals in 1946 and 805,373 quintals in 1947. During 1947, the total export value of tung oil constituted 79.3% of the total export value of this group. During the same year, the export of tea oil, 153,403 quintals in total, accounted for 13.5% of the total export value of this group. Other exports in this group included vegetable oil, n.o.r.; bean oil; and groundnut oil. In point of quantity, the best customers of China's tung oil were Hongkong, 408,087 quintals or 51% of the total; the United States, 248,366 quintals or 31% of the total; Great Britain and the U.S.S.R., in that order of importance. In point of value, the United States which accounted for 44% of the total export value occupied the leading position followed by Hongkong, 37% of the total value, Great Britain and the U.S.S.R. It should be mentioned that most of the tung oil listed as exports to Hongkong was actually re-exported to the United States. During 1947, tea oil was chiefly exported via Hongkong, totalling 135,855 quintals. After Hongkong, the United States, the Netherlands, and Italy were also good customers of Chinese tea oil.

Animals and Animal Products

The export of this group which consists of 33 items constituted 18.7% of total export value for 1947. The most important items of this group were hog bristles and hogs, followed by fresh eggs (incl. frozen eggs), poultry, moist and frozen whole eggs, casings, and duck feathers. During 1947, the total export

Table 2.—Quantitative Comparison of Principal Imports Between 1946 and 1947

Article	1946	1947
Raw Cotton	2,813,716 quintals	1,212,357 quintals
Gasoline	355,754,000 liters	542,619,000 liters
Liquid Fuel	330,659 m. tons	1,207,140 m. tons
Kerosene Oil	292,918,000 liters	379,822,000 liters
Lubrication Oil	63,564,000 liters	63,609,000 liters
Textile Machinery and Parts	29,631 quintals	110,076 quintals
Machinery and Parts, n.o.r.*	27,638 quintals	43,271 quintals
Prime Movers and Parts	76,796 quintals	178,274 quintals
Iron and Steel Rails	106,610 quintals	388,709 quintals
Structural Sections or Building Forms of Iron or Steel, fabricated for use	144,748 quintals	196,245 quintals
Common Printing and Newsprinting Paper	530,376 quintals	516,062 quintals
Cigarette Paper	4,240,000 kg.	3,258,000 kg.
Chemicals and Chemical Compounds, n.o.r.*	259,574 quintals	265,025 quintals
Sulphate of Ammonia	39,858 quintals	292,561 quintals
Caustic Soda	113,258 quintals	109,804 quintals
Medicines, Drugs, etc., n.o.r.*	6,119,000 kg.	1,445,000 kg.
Old, Waste, and Crude India-Rubber and Gutta-Percha	208,289 quintals	387,569 quintals
Rubber Pneumatic Tires for Motor Vehicles	96,660	246,968
Miscellaneous Goods and Sundries, n.o.r.*	11,527,000 kg.	12,364,000 kg.
Motor Tractors, Trailers, and Trucks	9,801	5,295
Motor Cars and Buses	2,036	5,234
Locomotive and Tenders	39	97
Aniline Dyes, and other Coal Tar Dyes, n.o.r.*	20,291 quintals	37,230 quintals
Sulphur Black	22,662 quintals	36,382 quintals
Telephonic and Telegraphic Instruments and Parts	117,000 kg.	329,000 kg.
Wool, Carded or Combed Wool, and Waste Wool	4,053,000 kg.	6,514,000 kg.
Railway Sleepers	365,639	1,926,638
Sawn Softwood	134,342 cu. m.	129,729 cu. m.
Softwood Hewn Rough and in Round Logs	86,244 cu. m.	217,012 cu. m.
Rice and Paddy	192,343 quintals	1,148,370 quintals
Wheat Flour	546,780 quintals	981,154 quintals
Tobacco Leaf	12,307,000 kg.	18,813,000 kg.
New Gunny Bags	125,739 quintals	172,730 quintals

*"n.o.r." stands for "not otherwise recorded."

Source: Chinese Maritime Customs

of bristles amounted to 4,435,207 kg., and accounted for 47% of total export value of this group. The best customers of Chinese bristles were the United States which purchased 2,580,347 kg. from China; and Great Britain, 1,135,000 kg.

During 1947, the total export of hogs amounted to 476,557 heads, constituting 22% of the total export value of this group. Over 95% of hog export went to Hongkong.

Fresh eggs were mainly exported to Hongkong and the Philippines, poultry to Hongkong and Macao, moist frozen whole eggs to Great Britain and Belgium, casings to Belgium, the United States, and the Netherlands, and duck feathers to the United States and Hongkong.

Piecegoods

The total export of this group consisting of 14 items accounted for 16.9% of the entire export value for 1947. The most outstanding items were cotton shirtings and sheetings, totalling 57,416 quintals and constituting 67% of the total export value of this group, with Aden and Perim, Hongkong, Abyssinia, and the Netherlands East Indies as the main customers.

Next in importance were cotton piecegoods, n.o.r. and natural and artificial silk piecegoods. The buyers of the former were Hongkong, the Philippines, and Aden and Perim; and the customers for the latter included India and Hongkong.

Yarn, Thread, Plaited and Knitted Goods

The total export of this group consisting of nine items constituted 8.3% of the total export value for 1947. Among these items, the most outstanding one was cotton yarn, totalling 34,842 quintals and constituting 79% of the total export value of this group. Most of the exports went to Hongkong and Siam, while other customers included Singapore, Aden and Perim.

Ranking in second importance in this group of exports included cross-stitch work and embroideries other than silk, yarn and thread, n.o.r. The best customers for the former were the United States and Hongkong, and for the latter, Hongkong, Singapore, and India.

Ores, Metals, and Metallic Products

The total export of this group consisting of 19 items accounted for 5% of the total export value for 1947. The most important item of this group was tungsten ore, which totalled 61,086 quintals and constituted 53% of the total export value of this group. The principal buyers were the United States, Hongkong, the U.S.S.R., France and Sweden.

Next to tungsten ore were antimony regulus and tin ingots and slabs. The total export of antimony regulus during the year amounted to 85,249 quintals, mostly purchased by the United States, Hongkong and the U.S.S.R. Tin ingots and slabs, the export of which totalled 41,150 quintals, mostly went to Hongkong, Burma and the United States.

According to the estimate made by the Export Minerals and Metals Division of the National Resources Commission, while the export of tungsten, antimony, and tin registered a general increase during the period from 1945 to 1947, it actually fell far below the prewar level. In 1947, these mineral products constituted about 11% of the total value of China's exports.

According to the same source, there is no home market for tungsten concentrate in China while the domestic consumption of antimony and mercury amounts to approximately 10% of the respective annual production.

Before World War II, China supplied about 50% of the world's requirements of antimony and tungsten, and 6% of the world's requirements of tin. Before 1937, a large portion of tungsten and antimony produced in China went to Germany in exchange for industrial and military equipments. Beginning 1937, a series of loans were arranged with Soviet Union half of the principals and interests to be repaid with the minerals and metals in question. In 1940 and 1941, the National Government obtained several loans from the United States also to be repaid from the sales proceeds of Chinese tungsten, antimony and tin. Despite the enemy blockade of the coast during the years 1941-45, these minerals were delivered partly by air to the Soviet Union and the United States. By February, 1948, the loan obligations to the United States had been met while only a small portion remained to be repaid to U.S.S.R.

Tables 3 and 4 show the production and export of tungsten, antimony, tin, and mercury both before and after the war (see pages 509-510).

Textile Fibres

There are 27 items in this group of exports which constituted 4.7% of the total export value for 1947. The most important item was steam filature white and raw silk, the export of which totalled

Table 3.—Export of Tungsten, Antimony, Tin and Mercury, 1945-47

Mineral	1945		1946		1947	
	Quantity (Metric Ton)	Value	Quantity (Metric Ton)	Value	Quantity (Metric Ton)	Value
Tungsten Concentrate	2,976	US$5,132,158.96	3,873	US$4,708,792.08	6,129	US$ 9,241,123.86
Antimony Metal	1,657	371,485.08	4,425	2,512,108.81	8,991	5,889,036.36
Refined Tin	1,730	1,448,179.77	1,669	2,115,917.14	2,608	4,292,127.52
Mercury	20	88,833.34	50	142,063.91	..	..
Total	..	US$7,040,657.15	..	US$9,478,881.94	..	US$19,422,287.74

Source: National Resources Commission

TABLE 4.—PRODUCTION AND EXPORT OF TUNGSTEN CONCENTRATE, ANTIMONY METAL, REFINED TIN, AND MERCURY—1936-1947
(in metric ton)

Year	Tungsten Concentrate		Antimony Metal		Refined Tin		Mercury	
	Production	Export	Production	Export	Production	Export	Production	Export
1936	8,806	2,489	14,597	11,115	..	..	..	..
1937	11,926	11,604	9,463	5,609	..	..	..	..
1938	12,556	7,255	12,017	4,709	1,840	208	169	..
1939	11,509	7,805	8,469	823	16,497	4,107	91	136
1940	9,542	2,919	7,989	7,123	6,994	6,552	120	128
1941	12,392	14,328	3,510	88	8,037	5,114	163	195
1942	11,897	7,687	428	..	4,418	7,260	118	96
1943	8,973	10,320	204	..	1,570	6,443	103	88
1944	3,225	7,704	..	1,567	1,878	1,730	63	20
1945	..	2,976	..	4,425	..	1,669	28	50
1946	2,362	3,873	426	8,991	1,470	2,608	..	..
1947	6,402	6,130	1,473	..	..	..	..	..

Note: In June, 1946, the government issued orders decontrolling tin and mercury. The figures for production and export of tin in 1946 and 1947 represent respective figures from the Yunnan Consolidated Tin Cooperation and the Ping-Kwei Mining Administration, both partly owned by the National Resources Commission.

Source: National Resources Commission

390,937 kg. and constituted 54% of the total export value of this group. About half of the export went to the United States, with the remainder to India and Great Britain.

Secondary exports in this group were silk waste, sheep's wool, cotton waste, and goats' wool. The principal buyer of silk waste was France; of sheep's wool, the United States; of cotton waste, Belgium, the Netherlands, Great Britain, and the Netherlands East Indies; and of goat's wool, Great Britain and the United States.

BEANS AND PEAS

The total export of this group consisting of 10 items accounted for 3.7% of the total export value for 1947. Heading the list was soybean, the export of which totalled 604,158 quintals and constituted 52% of the total export value of this group. Of the total quantity, 185,438 quintals went to Great Britain and 160,476 quintals went to Italy. Other buyers included the Netherlands, Sweden, Japan, Singapore and Hongkong.

Next to the soybean was the broad bean, the export of which totalled 154,227 quintals. Over 60% of the export went to the Netherlands, while the rest to Belgium and Italy.

TEA

There are 10 items in this group which accounted for 3.6% of the total export value for 1947. The principal export of this group was green tea, the export of which amounted to 93,198 quintals and constituted 74% of the total export value of this group. The main buyers were Morocco, Hongkong, the United States and Great Britain.

Second to green tea in 1947 export of this group was black tea, the export of which amounted to 53,479 quintals. The best customers were Hongkong, the United States, Great Britain and Iran. Other exports in this group included green brick tea which mostly went to the U.S.S.R. and Burma, and black brick tea which was solely sold to Hongkong.

SUNDRY

There are 44 items in this group of exports which constituted 3.1% of the total value of exports for 1947. The most outstanding items included hemp fiber hats; hair-nets, made of human hair; buntal fiber hats; sundries, n.o.r.; firecrackers and fireworks; and kittysols. The biggest customer of hemp fiber hats was the United States, which took up 85% of the total, the rest going to Austraila, Hongkong, and Canada. The United States was also the biggest buyer of hair-nets, made of human hair. Other customers included Great Britain, Hongkong, Australia and Canada. About 95% of buntal fiber hats went to the United States, while Australia and France took up the rest. Canada was the most outstanding buyer of sundries, n.o.r. and Australia came next. About 99% of the export of firecrackers and fireworks went to Hongkong, while Burma and the United States purchased the rest. Eighty percent of the export of kittysols went to Hongkong, with the rest taken up by the Philippines and Siam.

CHEMICALS AND CHEMICAL PRODUCTS

The total export of this group consisting of 11 items accounted for 1.9% of the value of total exports for 1947. The principal item was salt, the export of which totalled 1,671,159 quintals, constituting upwards of 80% of the total value of the export of this group. Japan was almost the sole buyer of this item.

Next to salt came menthol crystals which were mainly exported to the United States, Hongkong and Great Britain.

HIDES, LEATHER, AND SKINS (FURS)

This group consists of 32 items of merchandise, constituting 1.9% of the total export value for 1947. The most important items in this group included dressed or undressed kid skins, dressed or undressed lamb skins, undressed goat skins, dressed or undressed weasel skins, dressed or undressed kolinsky skins, and kid crosses. About 93% of the exports of this group went to the United States, with the rest taken up by Hongkong and Canada.

OTHER TEXTILE PRODUCTS

There are 17 items included in this group constituting 1.7% of the total export value for 1947. Most outstanding items in this group were woolen carpets (incl. wool and cotton carpets and floor rugs); clothing and articles of personal wear, n.o.r.; towels; handkerchiefs, other than silk; cotton blankets and counterpanes; and fish-nets. The exports of this group mainly went to Hongkong, the Philippines, and Siam.

A quantitative comparison of the various principal exports in 1946 and 1947 is summarized in Table 5.

TABLE 5.—QUANTITATIVE COMPARISON OF PRINCIPAL EXPORTS IN 1946-1947:

Articles	1946	1947
Tung Oil	352,638 quintals	805,373 quintals
Tea Oil	397 quintals	153,403 quintals
Bristles	4,759,000 kg.	4,435,000 kg.
Hogs	78,833 heads	476,557 heads
Fresh Eggs	14,542,000	139,867,000
Cotton Shirtings and Sheetings	97 quintals	57,416 quintals
Cotton Piecegoods, n.o.r.*	1,001 quintals	25,700 quintals
Natural and Artificial Silk Piecegoods	73,798 quintals	325,507 quintals
Cotton Yarn	1,421 quintals	34,842 quintals
Tungsten Ore	49,330 quintals	61,086 quintals
Antimony Regulus	47,329 quintals	85,249 quintals
Steam Filature White and Raw Silk	626,817 kg.	390,937 kg.
Yellow Beans	57,044 quintals	604,158 quintals
Broad Beans	646 quintals	154,227 quintals
All kinds of Green Tea	20,765 quintals	93,198 quintals
All kinds of Black Tea	44,130 quintals	53,479 quintals
Hemp Fiber Hats	1,450,000	2,652,000
Salt	2,237,866 quintals	1,671,159 quintals
Dressed or Undressed Kid Skins	1,711,000	1,232,000
Woollen Carpets (incl. Wool and Cotton Carpets and Floor Rugs)	4,154 quintals	5,974 quintals
Cotton Seed-cakes	5,131 quintals	131,734 quintals
Medicinal Substances, n.o.r.*	66,196 quintals	57,215 quintals
Shelled Groundnuts	14,094 quintals	103,170 quintals

*"n.o.r." stands for "not otherwise recorded."

Source: Chinese Maritime Customs

EXPORT-IMPORT BOARD

The Export-Import Board was first established as the Board for the Temporary Regulation of Imports under the Supreme Economic Council in November, 1946, to issue import licenses and to coordinate the work of various organizations concerned. On August 17, 1947, with the promulgation of the Foreign Trade Regulations, the board was renamed the Export-Import Board and placed under the Executive Yuan. In March, 1949, it was abolished and its functions were taken over by the Ministry of Finance.

The board was set up at a time when a serious drain on Chinese foreign exchange reserve was felt as a result of unfavorable balance of trade. Its main object was to reduce non-essential imports to the minimum while maintaining a sufficient volume of essential imports to feed and improve China's industries, mines and communication systems, and at the same time to extend the greatest facilities and encouragement to exports.

According to its organic law, the board was composed of nine to 11 members including the Minister of Finance, the Minister of Economic Affairs, the chairman of the National Resources Commission, the governor of the Central Bank of China, and other members as might be appointed by the Executive Yuan.

The chairman and the two vice-chairmen of the board were appointed by the Executive Yuan from among members of the board. Administrative departments were established, the functions and constitutions of these departments determined by the board itself. The departments were:

(1) The Allocation Department—This department fixed the quotas of goods to be imported under Schedule II. The usual procedure was for the department to submit the quotas to the respective trades with the direction that each trade apportion its own quota among importers who were registered with the Board in respect of that trade. The apportionment, however, was subject to approval by the department. In the event of the importers in any trade failing to agree upon apportionment among themselves, such apportionment should be determined by the allocation department.

(2) The Foreign Exchange Examination Department of the Central Bank of China—This department was authorized to consider applications of goods to be imported under Schedule III. This department was superseded on April 1, 1947 by the Non-quota Department.

(3) The Import Licensing Department—This department issued licenses in respect of the importation of goods under Schedules I and II and some items under Schedule IIIA.

In addition to these departments, two committees were established by the Board: the Executive Committee and the Appeal Committee. The former was composed of the governor of the Central Bank of China, the director of the Import Quota Allocation Department, and the director of the Non-quota Department and the chief of the secretariat. The Executive Committee was responsible to the board and had a secretariat to coordinate the work of various departments concerned.

The Appeal Committee was appointed by the board to handle complaints or questions arising out of the registration of imports, licensing of goods for importation and similar issues.

The board was authorized to establish regional offices or sub-offices at all ports, if necessary. The functions and construction of such regional offices were formulated by the board. Pending organization of such regional offices, matters pertaining to the control of imports and exports should be transmitted to the local office of the Central Bank of China to be dealt with as directed by the board.

FOREIGN TRADE CONTROL MEASURES

All the foreign trade control measures introduced by the government since V-J Day have been designed to attain a favorable balance of trade. Inflation, shortage of raw materials, and communist uprisings, account for the numerous foreign trade regulation measures.

TEMPORARY REGULATIONS GOVERNING IMPORT AND EXPORT TRADE

On Febraury 26, 1946, in order to abolish all wartime restrictions on foreign trade, the Chinese Government adopted a set of Temporary Regulations Governing Import and Export Trade introduced by Dr. T. V. Soong, then the President of the Executive Yuan. These regulations were promulgated on March 1, 1946.

According to these regulations, imports were divided into three categories, free imports, licensed imports, and prohibited imports including passenger motor cars, sugar, tobacco leaf, kerosene oil, and undeveloped movie film. The importation of such luxury articles as watches, wines and spirits, cigarettes, cigars and tobacco, jewelry and ornaments, n.o.r., pearls, precious stones was permitted through payment of a luxury surtax of 50% over the existing tariff rates and acquistion of special licenses. The total number of prohibited imports was only 22.

The regulations required all exporters, prior to declaration at the customs, to submit to the customs for examination the certificate issued by the appointed banks certifying that foreign exchange would be realized from the commodities to be exported.

REVISED TEMPORARY FOREIGN TRADE REGULATIONS

On November 17, 1946, the government announced the adoption of the Revised Temporary Foreign Trade Regulations, superseding the control regulations which had been promulgated on March 1, 1946, to facilitate the importation of machinery and capital goods, while discouraging the importation of non-essentials.

Since V-J Day, non-essential goods had been flooding the Chinese market. The revised control regulations were to serve as a brake on the importation of such goods.

The salient points of the Revised Temporary Foreign Trade Regulations were as follows:

1. Except for nine prohibited items, all may be freely exported upon presentation to the customs of an invoice containing a certificate in a form prescribed by the Central Bank of China and signed by an appointed bank stating that it purchased the foreign exchange derived therefrom.

2. All imports, with the exception of prohibited items and goods which required no foreign exchange or valued under US$50, should be subjected to license and could only be permitted in accordance with the provisions of these regulations.

3. A board for the purpose of administering the system of import licenses and of coordinating the work of the organizations concerned should be established under the Supreme Economical Council (*see* section on Export-Import Board).

4. Only applications for licenses by importers registered with the board would be considered. Importers should be registered in accordance with the particular trade, or trades, in which they are engaged.

Establishment of the Export Board

On February 7, 1947 the Executive Yuan announced the inauguration of the Board for the Development of Exports, and also the granting of a 100% bonus to all export goods. The bonus scheme, however, was discarded in the set of emergency measures announced on February 6, 1947 to deal with the deteriorating economic situation. The Government raised the official exchange rate of the U. S. dollar from CNC$3,350 to CNC$12,000.

To assure the promotion of exports, 17 sub-committees were organized under the promotion department for (1) silk and silk piecegoods, (2) cotton piecegoods, knitted goods and cotton, (3) embroidered goods, laces and human hair nets, (4) tung oil, (5) tea, (6) eggs and egg products, (7) sheep and goat wool and carpets, (8) goatskins and hides, (9) skins and furs, (10) vegetable products, ramie, peanuts and peanut oil, (11) animal products, (12) straw hats, (13) medicinal products and camphor, (14) bristles, (15) mineral ores, (16) beans and (17) sundries.

Foreign Trade Regulations

The new Foreign Trade Regulations designed to boost exports and tighten the control on imports were officially announced on August 17, 1947, cancelling the Revised Temporary Foreign Trade Regulations which had been promulgated on November 17, 1946 and the Regulations of the Board for the Development of Exports issued on February 7, 1947.

Highlights of the new regulations were:

1. Proceeds from exports and inward remittances may be sold to the appointed banks at the open market rate.

2. The import licensing system was to be maintained. Imports, except daily necessities and essential commodities the exchange requirements of which would be provided by the Central Bank of China at the official rate, were required to meet their foreign exchange needs by purchasing from the appointed banks at the market rate.

3. A Foreign Exchange Equalization Fund to be established was to regulate the demand and supply of foreign exchange arising from the import and export trade and other legitimate dealings in an effort to stabilize the market rate of exchange.

4. The regulations concerning the prohibition of speculation on gold and the circulation of foreign currency notes would remain in force.

(For the full text of the Foreign Trade Regulations, *see* Foreign Trade Laws and Regulations at the end of this chapter.)

CBC Circular No. 134

On May 31, 1948, the Central Bank of China promulgated the Circular No. 134, putting into effect a new surrender certificate system, which was designed to promote exports, to curtail profits from imports by applying the same exchange rate for both imports and exports, and to attract overseas remittances.

This system had the following effects:

1. The short-lived and much criticized Circular No. 131 would be superceded by the new regulations.

2. The exporters and importers and others selling exchange to an appointed bank at the open market or the fund's rate would receive an Exchange Surrender Certificate equal in value to the exchange sold. On the other hand, importers and others entitled to buy exchange from an appointed bank at the open market rate would be required to deliver to an appointed bank Exchange Surrender Certificates equal in face value to the amount of their licensed import as a condition for the purchase of the required exchange.

3. Essential commodities such as rice, wheat and flour, cotton and fertilizer and any other exchange requirements specially designated by the government would be excluded from this condition and would continue to be settled at the open market or the fund's rate.

4. Surrender Certificates may be traded by endorsement between exporters and importers with a return additional to the fund's rate. This extra cost would be paid by the importers. In order to prevent undue fluctuations in the price of Surrender Certificates, the Central Bank on instructions from the Fund Committee would intervene in the market by selling and buying Certificates. Exchange which hitherto had been made available at the official rate would be provided at the fund's rate.

5. The modification in the present system would give more flexibility and, by affording exports and incoming foreign exchange a more realistic rate, facilitated the export t ade and increased exchange receipts.

(For the full text of regulations governing the use of the Exchange Surrender Certificates by importers and exporters and the procedure in handling Exchange Surrender Certificates, *see* Foreign Trade Laws and Regulations at the end of this chapter.)

New Regulations Governing Imports Issued After Emergency Economic Reform

In co-ordination with the Emergency Economic Measures promulgated on August 19, 1948, the Export-Import Board promulgated on October 26, 1948 a set of rulings in five articles and another set of six articles governing the clearance of applications for the importation of purchases from abroad already paid for prior to August 19, 1948, as approved by the Executive Yuan. On the same day, the board was also authorized to promulgate the revised regulations and procedural rulings pursuant to the regulations governing applications for imports paid with foreign exchange abroad belonging to overseas and other Chinese nationals for investments in domestic productive enterprises. In addition, on October 27, the board promulgated provisions in six articles, permitting foreign-owned productive enterprises in China to apply for the import of equipments and replacement and extension accessories, in accordance with the proviso of Article 4 of the aforementioned revised regulations.

(For the full texts of these regulations, *see* Foreign Trade Laws and Regulations at the end of this chapter.)

Export-Import Link System

On November 21, 1948 the Ministry of Finance announced a new export-import link system. General principles of the link system are as follows:

1. Foreign exchange proceeds of export shipments shall be transferred in full to the Central Bank or its appointed banks for a Foreign Exchange Clearance Certificate of a like amount.

2. Foreign exchange accruing from overseas Chinese remittances and other foreign currency remittances from abroad shall be turned in to the Central Bank or its appointed banks in full exchange for a Foreign Exchange Clearance Certificate of a like amount, or may, at the option of the beneficiary, be sold directly to the Central Bank or its appointed banks.

3. Foreign Exchange Clearance Certificates may be applied for for paying imports under an authorized import license or for meeting non-import foreign exchange requirements approved by appropriate authorities.

4. Holders of Foreign Exchange Clearance Certificates may use them for their own needs in accordance with the provision of paragraph 3 hereof or transfer them to a third party. The validity of the certificates shall not exceed two months from the date of issue.

5. Imports shall be classified according to their nature into two categories: (a) quota imports and (b) non-quota imports. Quota imports shall be allocated to importers and manufacturers and non-quota imports shall be granted according to a priority rating based on the urgency of domestic requirements.

6. "The Revised Temporary Foreign Trade Regulations" and schedules attached thereto and "The Revised Temporary Regulations With Regard to Foreign Exchange Transactions" shall be separately amended in accordance with the general principles herein stated.

Changes in Customs Tariff

China's postwar customs tariff began to undergo a revision with the promulgation of Temporary Foreign Trade Regulations on February 26, 1946 which divided the tariffs into different schedules, namely, importation without any restriction (capital goods), licensed imports, and imports under ban. On February 6, 1947 the government announced a surcharge on imports and a subsidy for exports. Not having a chance to be enforced, these measures were replaced ten days later by the Emergency Economic Measures maintaining the Temporary Foreign Trade Regulations after making a few minor changes in the schedules.

China participated in the International Trade Conference held at Geneva on October, 1947, at which a general agreement on tariffs and trade was concluded.

The protocol of provisional application of the agreement was signed on April 2, 1948, and became effective on May 21, 1948.

On August 2, 1948, the government promulgated an entirely new set of import tariff schedules in which a thorough revision of the 1934 tariff was made.

The 1948 tariff represents a substantial increase ranging from double to three times, in accordance with channels of consumption and the degrees of processing. This was designed to protect the Chinese industry, which is still in its infancy, from competition. An analysis of the tariff grades shows that while the old tariff ranged from free of duty to 80% with 13 grades, the 1948 tariff has a range from free of duty to 200% with the grades doubled. (For the full text of Customs Tariff, *see* Foreign Trade Laws and Regulations at the end of this chapter.)

SECTION I

FOREIGN TRADE REGULATIONS Revised on August 17, 1947 by the State Council

The Revised Temporary Foreign Trade Regulations promulgated on November 17, 1946 and the Organic Regulations governing the Board for the Development of Exports promulgated on February 7, 1947, are hereby annulled upon the promulgation of these Regulations.

I. EXPORTS

Article 1. — All exports except those listed in Schedule V annexed hereto may be freely exported.

Article 2.—Exporters in applying for clearance of an export or re-export shipment shall present to the customs for examination a certificate signed by an appointed bank stating that it has purchased or contracted to buy the foreign exchange derived therefrom at the prevailing market rate, further endorsed by the Export-Import Board verifying that the value of the shipment agrees with the amount of foreign exchange purchased by the bank; provided however that such a certificate is not required in the case of a shipment valued at less than US-$25.00 or equivalent value and not for commercial purposes.

Article 3.—The Export-Import Board may, in accordance with the government economic policy, adopt necessary procedures for regulating and developing the export trade.

II. IMPORTS

Article 4.—With effect from the date of promulgation of these regulations the importation of all goods, except those otherwise provided for, shall be subject to import license to be applied for in accordance with the provisions of these regulations.

Article 5. — All goods imported into China are hereby classified into the following categories with various commodities in each category listed in detail under each Schedule annexed to these regulations:

(1) Machinery and other Capital Goods —under Schedule I

(2) Raw Materials for Industries—under Schedule II

(3) Miscellaneous Commodities—under Schedule IIIa

(4) Temporarily Suspended Imports—under Schedule IIIb

(5) Prohibited Imports—under Schedule IV

Article 6.—Goods or classes of goods under various schedules enumerated in the foregoing Article may, upon approval of the Executive Yuan, be transferred by the Export-Import Board from the schedule to another as circumstances so require. Public announcement of such transfers shall be made by notifications in the Press.

Article 7. — Prior to importation of goods from abroad, the importers shall submit to the Export-Import Board for its examination applications for import licenses to cover the importation.

Article 8.—Importers shall, upon obtaining import licenses, be entitled to apply for purchase of necessary foreign exchange at an appointed bank to meet the requirement of importation.

Article 9.—Importers prior to their obtaining import licenses shall not be permitted to complete purchase of, or to ship, goods from abroad.

Article 10.—The importation of goods in Schedule II shall be subject to quota allocation. Quotas in respect of these goods shall be fixed quarterly in a year and shall be proposed by the Export-Import Board and announced in the Press when they are approved by the Executive Yuan.

The Export-Import Board may, according to circumstances, directly allocate quotas to manufacturers in a trade or to importers for supply, to and/or account of, manufacturers or dealers.

Article 11.—Importers having obtained business licenses from the authorities, shall, in accordance with the particular trade, or trades in which they are engaged, be registered with the Export-Import Board, and when registered by the board as qualified, shall be entitled to file applications for import licenses.

Provisions governing registration of importers in the preceding paragraph shall apply to manufacturers directly applying for importation of goods from abroad.

Article 12.—Government-operated enterprises applying for importation of goods shall be subject to the same requirements in licensing procedure as the privately-owned firms.

Article 13.—The Export-Import Board shall issue general import licenses:

(1) To UNRRA for goods for relief and rehabilitation

(2) To the Board of Supplies for goods under the terms of the China-U.S.A. Surplus War Property Sales Agreement; Supplies through Lend-Lease; and governmental purchase through foreign loan and credit arrangements.

Article 14.—The importation of goods by governmental departments for official use shall require the prior approval of the Executive Yuan, which, when granted, shall be deemed to constitute an instruction for issue of import license by the Export-Import Board.

The procedure and standard for screening the aforementioned applications shall be separately provided for by the Executive Yuan.

Article 15.—The importation of goods required for official use of foreign embassies, legations, consulates in China or for personal use of their diplomatic personnel, may be permitted under special licenses issued by the Export-Import Board provided that the use of such imports is certified by the ambassadors or ministers concerned.

Article 16. — Importations by philanthropical, religious and educational institutions either as donations from abroad for relief, religious and educational purposes or for meeting requirements of the institutions themselves for which no foreign exchange is required shall also be permitted under special licenses issued by the Export-Import Board; provided that the goods are not for the use of the individual members of these institutions and that goods in Schedule IV are excluded.

Article 17.—Goods for which no foreign exchange is required, such as personal gifts, and samples of no commercial value may be imported into China without an import license: Provided that the value of such goods does not exceed U.S.$50.00 or equivalent value, and that they are not intended for sale. The exemption does not apply to goods in Schedule IV.

III. ORGANIZATION

Article 18.—For the purpose of coordinating imports with exports through a system of control and development, an Export-Import Board is hereby created under the Executive Yuan.

Article 19.—The board shall be composed of from nine to eleven members consisting of the following:

(1) Minister of Finance

(2) Minister of Economic Affairs

(3) Chairman of the National Resources Commission

(4) Governor of the Central Bank of China

(5) Other members as may be appointed by the Executive Yuan.

Article 20.—The board shall have one chairman and two vice-chairmen to be appointed by the Executive Yuan among the members of the board.

Article 21.—The board shall establish various departments whose functions and constitution shall be determined by sets of organic regulations separately provided for.

Article 22. — The board may create various sub-committees as are required by circumstances in the discharge of its functions.

Article 23. — The board may appoint from two to three advisers to be chosen by the board from among persons of recognized merit, standing and general experience.

Article 24.—The board shall establish a committee on appeals to take charge of cases of complaints from import or export merchants.

Article 25.—The board may establish regional offices or sub-offices at import- and trading ports in China for the purpose of attending to all functions of control and development of local import and export trade. Organic regulations governing such regional offices or sub-offices are to be separately promulgated.

At the ports where no regional offices or sub-offices are established, the Central Bank of China in these localities may be delegated with the authorities to perform the functions of the board.

IV. General Provisions

Article 26.—For the purpose of facilitating the enforcement of these regulations the board may establish rules and procedures and design *pro-forma* papers and report them to the Executive Yuan for record.

Article 27.—These Foreign Trade Regulations shall take effect upon the date of promulgation.

SCHEDULE I

Capital Goods

Tariff No.	
244	Agricultural Machinery, and parts thereof.
245a & b	Electrical Machinery for Power Generating and Transmission, such as Dynamos, Motors, Transformers, Converters, etc., and parts thereof.
246 & 247	Machine Tools and Machine Shop Tools and parts thereof.
252	Machinery N.O.P.F. (i.e. Pumping, Printing, Paper-making, Textile Machinery, etc.) and parts therof.
255 (part)	Steamers, complete, and parts or materials thereof, N.O.P.F.
248	Prime Movers, i.e. Gas Engines, Oil Engines, Steam Engines, Hydraulic Turbines, Steam Turbines, Turbo-generator Sets and other Prime Movers, combined with Generators or not, and parts thereof.
181, 188	Railway and Tramway Supplies.
257 a, b, c, and 588	
249	Steam Boilers, Economisers, Super-heaters, Mechanical Stokers, and other Boiler-room Accessories, and parts thereof.
256(a) (part)	Motor Tank Lorries and Motor Tank Tractor Trailers.
253	Aircraft and aircraft parts.

SCHEDULE II

656 (part)	Cinematographic Films, developed.
532 & b	Kerosene Oil.
256b (part)	Passenger Motor Cars (other than those on the Prohibited List) and chassis thereof.
387	Sugar.
423 & 425	Tobacco Leaf and Stalk, Dust, Sifting and Refuse.
482	Aniline Dyes, and other Coal Tar Dyes, N.O.P.F.
440	Ammonia, Sulphate of.
130	Artificial Silk Floss and Yarn.
618	Cement.
603a & b, 607	Coal and Coke.
71	Cotton, Raw.
426 to 432; 434, 438 to 439; 441, 443 to 446; 448, 451, 454, 455 to 460, 463; 465, 467 to 479; 480 (part)	Chemicals.
Tariff No.	
450	Fertilizers, Chemical or Artificial, N.O.P.F.
357	Flour, Wheat.
520 a & b	Gasoline, Naphtha and Benzine, Mineral (including similar motor fuels, N.O.P.F.)
108	Gunny Bags, New.
109 (part)	Gunny Bags, Old.
521	Grease, Lubricating, Wholly or partly mineral.
498	Indigo, artificial.
644a, c & d	India-rubber and Gutta-percha, and manufactures thereof.
98	Jute, raw.
529a & b	Liquid Fuel (Fuel Oil).

SCHEDULE II (*Continued*)

Tariff No.	
563 & 649	Leather Machine Belting and Hose other than those made of Rubber.
147 to 172; 173 (part); 174 to 180; 182 to 187; 189 to 214; 216 to 225; 227 to 238; and 240.	Metals.
541	Oils, Fats and Waxes, N.O.P.F.
634a & b	Oils, lubricating.
545 to 556; 558 to 560	Paper and Wood Pulp.
461, 464 and 481	Pharmaceuticals.
398 (part)	Grape Sugar, medicinal.
672 (part)	Plasters, adhesive, medicinal.
384a & b	Rice and Paddy.
663	Starch.
510	Sulphur, Black.
511	Tanning Extracts, Vegetable, N.O.P.F.
580 to 587; 589 to 590	Timber.
395	Wheat.
112 & 113	Wool and Wool Waste.
114a & b	Woolen Yarn and Thread, Pure or Mixed.

SCHEDULE III(A)

Tariff No.	
274	Agar-Agar, in bulk.
629 (a-f)	Asbestos and manufactures thereof.
542	Books, Printed or Manuscript, Bound or Unbound (not including note-books, ledgers, and other office, school and private stationery).
338	Barley, Buckwheat, Maize, Millet, Oats, Rye, and Grain, N.O.P.F.
630	Barometers, Thermometers, Drawing, Surveying, Medical, Nautical, Optical, Surgical, Dental, and other Scientific Instruments or Apparatus, and parts or accessories thereof.
258 (part)	Bicycles, and parts thereof.
342	Bran.
631	Building Materials N.O.P.F.
543	Charts and Maps (including Outline Maps, Relief Maps, Globes, and Models, and Charts for Educational purposes, such as the teaching of anatomy, etc.).
433, 435, 436, 437, 442, 447, 449, 453, 466, 480 (part)	Chemicals.
262	Coal-burning, Oil-burning and Spirit-burning Stoves, Cookers, Radiators, Steam Heaters, and similar Appliances, and parts thereof.
103	Canvas and Tarpaulin, of Hemp and/or Jute, mixed or not mixed with cotton.
76a, b & c	Cotton Thread.
672 (part)	Dextrin.
483 to 497	Dyes, Pigments, Colours, Tans and Tanning
502 to 509; 512 to 517	Materials, and Paint Materials.
518 (part)	Paints and Varnishes, N.O.P.F.
263a	Bulbs-Specified as from 100 to 120 volts or from 210 to 230 transmission, and Distribution.

SCHEDULE III (A) (*Continued*)

Tariff No.	
263b & c	Electrical Materials, Fixtures, and Fittings for Wiring, Transmission, and Distribution.
264	Electric Cookers, Fans, Flash-lights, Irons, Lampware, Radiators, Toasters, and other Similar Electric Appliances and parts thereof.
265	Electric Accumulators, Batteries, Condensers, and parts thereof.
620	Emery and Glass Powder.
636a & b	Emery Cloth.
254	Fire Engines, Hydrants, and other Fire Extinguishing Appliances and parts thereof.
285	Fish, Herring, salt.
288	Fish, salt, N.O.P.F.
104	Flax Piecegoods, White, Plain, Mixed or not Mixed with Cotton.
105	Flax Piecegoods, Mixed or not Mixed with Cotton, N.O.P.F.
266 (a to d)	Files of all kinds.
358	Flours and Cereal Products, N.O.P.F.
267	Gas Burners, Cookers, Heaters, Lamps, Ranges, Water-heaters, and other similar Gas-burning Appliances, and parts or accessories thereof.
268	Gas-meters, Water-meters, and other similar Measuring Instruments.
613	Glass, Window, Common (weight required).
640	Glue.
522 to 528	Gums and Resins.
642	Gypsum.
126b	Hat Bodies, of Felt.
106	Hessian Cloth.
365	Hops.
501	Inks of all kinds.
452	Insecticides and Disinfectants.
672 (part)	Ivory Nuts (vegetable ivory) for making buttons, etc.
594	Kapok.
564	Leather, Sold.
565	Leather, N.O.P.F.
372	Malt.
373	Medical Substances, Vegetable (Crude) N.O.P.F.
243 & 273 a & b	Metalware, N.O.P.F. and Metal Manufactures, N.O.P.F.
323	Milk and Cream, Evaporated or and Sterilized.
325	Milk, Food (including Dried Milk, Lactogen, Glaze, etc.)
324	Milk Condensed.
396	Molasses.
256(b) (part)	Motor Cycles.
256 (c)	Motor Vehicles and parts and accessories thereof.
269 a & b	Needles, Sewing and Machine.
544 a & b	Newspapers and Periodicals.
326	Oil, Cod-Liver.
531	Oil, Coconut.
533	Oil, Linseed.
146	Ores of all kinds.
617 (part)	Optical Lenses, polished and unpolished, and Spectacle Frames, and parts thereof.
561	Paperware and all articles made of paper, N.O.P.F.
381 a & b	Paper, in Bulk.
605	Pitch and Asphalt.
659	Printing and Lithographic Materials, N.O.P.F.
598a, b & c	Rattans.
401	Saccharine.
536	Stearine.
250	Sewing and Knitting Machines and parts thereof.
139	Silk Bolting Cloth.

SCHEDULE III (A) (*Continued*)

Tariff No.	
672 (part)	Silkworm Eggs.
599a	Straw, Panama Straw and the like.
664 b	Synthetic Resins and other Plastics (such as Celluloid, Bakelite Galilith, etc.) including Lumps, Bands, Bars, Rods, Plates, Sheets, Tubes, Powder, etc., i.e. not as finished articles.
606	Tar, Coal.
271b	Telephonic and Telegraphic instruments and parts thereof.
272a & b	Tins, Empty, for Kerosene Oil.
537a & b	Turpentine.
78 & 101	Teine and Cordage (including rope).
251	Typewriters, Automatic Sales Machines, Calculating Machines, Cash Registers, Copy Presses, Cheque Perforators, Dating Machines, Duplicating Machines, Numbering Machines, and similar office Machines for Clerical or Accounting Purposes, and parts thereof.
538 to 540	Wax, Bees, Yellow, Paraffin, and Vegetable.
600 (a to h)	Wood.
601 (b, g, h, i, k, & l)	Woodware.
124	Woollen Blankets and Travelling Rugs, pure or mixed.
127	Woollen Clothing, and all other woollen articles of personal wear and parts or accessories thereof, N.O.P.F.
123	Woollen Felt and Felt sheathing.
119	Woollen Piecegoods for technical purposes, pure or mixed, such as Roller Cloths, Paper Mill Blanketing, etc.
567a (part)	Weasel Tail.
656 (part)	Photographic Equipments Special Camera for Photo Engraving Lenses Filters; Shutters; View Finders and Engraved Screen (fitting into the Camera) Plates Roll Films, Film Packs (including Cut Films) Photo-Flashlight, Exposure Metres Paper, Sensitised, Terro-Prussiate, etc., (used in Photo-Process, as Blue Print Paper, etc.) Printing Frame, Electrically operated; Blue Print Machines for Reproducing Plans; Photo-Copying Machine; Photo-lithographic (Camera) Equipment; Photo-mechanical Equipment; Step and Repeat Printing Down Machine, etc. Cinematographic Equipment Cine Cameras, 35mm., Cine Cameras, 16 mm. Lenses for Cine-Cameras Cine-Camera Parts, others (These including Supply Spool Spindle; Take-up Spindle; Supply Spool; Take-up Spool; Film Loops; Aperture Plate; Film Gate Tension; Lens Hood; Lens Plate; Diaphram Ring; View Finder Sights; Sprocket Rollers; Sprocket; Foolage Register Lever; Exposure Start Lever; Footage Register; and Exposure Guide, etc.)
628 (part)	Animals, living (for improvement of breed and for dairy farm).
573c (part)	Rabbit Hair.
575	Manure, animal.
625 (part)	Graphite Crucibles.
646 (part)	Mining Lamps and Parts thereof.
614 (part)	Wire Glass (for factory use).
562a	Hides, Cow and Buffalo.
646 (part)	Hurricane Lanterns.
353	Cinnamon.
383	Putchuck.
347	Cardamons, inferior.
348	Cardamons, superior.

SCHEDULE III(A) (*Continued*)

Tariff No.	
654 (part)	Pen Nibs.
652 b (1)	Organ Reeds.
391	Seeds.
657	Seedlings.
261 a (part)	Alarm Clocks and Watchman's Clocks.
360a	Copra.
662 (part)	Sporting Requisites, N.O.P.F.; Balls, Base; Balls, Cricket; Balls, Tennis; Balls, Golf; Balls, Hockey; Bowls, Lawn, Balls, Pole; Bats, Baseball; Bowling Alley; Complete with Bowls; Foils, Fencing; Golf Clubs; Rowing Machine; Sticks, Fencing; Sticks, Hockey; Sticks, Polo.
626 a (part)	Fused Silica Ware; Chinaware and Earthenware Fittings and Fixtures, for bath-rooms or lavatories as Bathtubs, Water tanks, Commodes, Wash-basins, etc.
579a	Elephant's Tusks, whole or parts thereof.
97	Hemp, raw.
271 a (part)	Radio Sets and Parts: (1) Hard Rubber or Composition Dials, Lizendraft Wire, Grid Leak, Microphones, Headphones, Loud Speakers and Loud Speaker Units, Crystals, Transmitting Vacuum Tubes, Intervalve Audio Frequency Transformers, Receiving and Transmitting Condensors (except variable type) of all kinds, Resistors, Volume controls, Potentiometers, Rheostats, (2) A.B.C. Battery Eliminators of Rotary Convertor and Vibrator types, Sockets, Receiving Vacuum Tubes, (3) Switches, Commercial Receivers.
173 (part)	Copper Cable, Bars, Stranded, High Tension.
537 b (part)	Soaps, Industrial (Referring to Alkali Compounds of fatty substances but not including compounds of Alkali with higher fatty acids).

Materials for use in manufacturing processes, and parts specifically required for repairs and for replacement purposes, n.o.p.f. in Schedules I, II, and III(A).

SCHEDULE III(B)

This Schedule includes all goods other than those classified in Schedule I, II, III(A) and IV. Pending further notification the importation of goods in this Schedule is temporarily suspended.

SCHEDULE IV

Articles the Import of Which is Prohibited

Tariff No.	
275 a, b & c	Awabi.
299	Asparagus.
256 b (part)	Automobiles with 7 passenger capacity or less whose net f.o.b. factory cost to dealer exceeds US$1,200 or equivalent, and chassis thereof.
276a, b & c	Becho de Mar.
303	Birds' Nests.
304	Caviar.
312	Confectionery
633	Curios and Antiques.
634	Damascene ware, Satsuma ware, and Lacquer ware.
635	Decorative or ornamental materials or products, N.O.P.F. (including spangles, tinsel and wire, metallic trimmings, etc.)
77	Imitation gold or silver thread, on cotton.
136	Imitation gold or silver thread, on silk, pure or mixed.
645	Jewelry, and ornaments, N.O.P.F.
80, 102, 115 & 137	Lace, trimmings, embroidered goods, and all other materials used for decorative or ornamental purposes; and all products made wholly thereof. (Cotton; flax; ramie; hemp; jute; wool; silk).

SCHEDULE IV (*Continued*)

Tariff No.	
650	Manicure sets and parts thereof; powder puffs and cases and vanity cases.
579 c (part)	Manufactures of tusks.
576	Musk.
653	Pearls, real or imitation.
655 (part)	Perfumery; Cosmetics.
664 a (part)	Plastic Raincoats.
658b	Precious and Semi-Precious Stones, Real or Imitation (not including uncut and unpolished), and manufactures thereof.
669 (part)	Plastic Hand-bags and Satchels.
296	Shank fins.
296, 297a, b & c	Silk knitted tissue, pure or mixed.
138	Silk velvets, plushes and all other pile cloths, pure or mixed.
140	Silk piecegoods, pure or mixed, N.O.P.F.
142 (a to h)	Silk clothing and all other articles of personal wear and parts and accessories thereof N.O.P.F.
144	Silk goods and silk mixtures, N.O.P.F.
145	Skins (furs) and articles made wholly or chiefly of skins (furs) N.O.P.F.
567 a (part) b and 568	Thermostatic containers.
665	Tea.
33a & b	Toys and games.
668	Toilet equipments (such as combs, brushes, etc.)
667	Umbrellas and Sunshades:—(a) With handles wholly or partly of precious metals, ivory, mother-of-pearl, tortoise shell, agate, etc. or jewelled, (c) With all other handles, silk and silk mixtures.
670 a & c	Woollen carpets, carpeting and all other floor coverings, pure or mixed.
125	

SCHEDULE V

Items Whose Export is Prohibited Unless Permission is Granted by the Government Through Customs

1. Mineral products subject to special government regulations, namely, the metallic ores and smelted metals of wolfram, antimony, bismuth, molybdenum, uranium and thorium.
2. Silver coins, silver bullion, gold bullion, subsidiary coins of nickel and metal alloy, copper cash and coins and copper remelted therefrom.
3. Salt.
4. Wild animals and birds, alive, of all kinds (including game).
5. Birds' skins (i.e. skin with feathers on) and feathers of wild birds held together by small portion of the skins.
6. Antiques.
7. Original writing of Dr. Sun Yat-sen, ancient Chinese books and archives of government departments.
8. Rice, paddy, wheat, wheat flour, and manufactures thereof.
9. Cotton Yarn and cloth.

SECTION II

Regulations Governing the Use of the Exchange Surrender Certificates by Importers and Exporters

(Effective From May 31, 1948)

1. Exporters on selling exchange to an appointed bank, either against letter of credit or a consignment will receive an Exchange Surrender Certificate ("Certificate") equal to 100% of the exchange sold. In the case of a consignment, the certificate will only be issued by an appointed bank when the exchange proceeds are actually realized and sold in cash to the appointed bank. The certificate will only be issued if the sale of exchange is

made within the time limits specified in the Central Bank of China circular No. 85.

2. Importers holding licenses for the import of goods other than rice, wheat and flour, cotton and fertilizer, when applying for the purchase of exchange from an appointed bank will be required, in addition to the existing requirements to surrender to the appointed bank certificates equal in face value to the amount of their import license.

3. The authorized holder of a certificate may transfer his certificate to a qualified holder of an import license or other person authorized to buy exchange from an appointed bank, for a consideration which is to be determined by agreement between seller and buyer.

4. Certificates are transferable only by endorsement between appointed banks, exporters, importers and others authorized to purchase exchange from an appointed bank. Transfer to unqualified persons invalidates the certificate.

5. The validity of a certificate for the purchase of exchange from an appointed bank shall not be more than seven days. The validity date of a certificate will in no circumstances be extended.

6. C. B. C. Circular No. 131 has been cancelled.

Procedure in Handling Exchange Surrender Certificates

1. The cover rate of exchange of all foreign currencies will be determined, as heretofore, by the Foreign Equalization Fund Committee (the "Fund") on behalf of the Central Bank of China and all foreign exchange transactions including transactions involving the Exchange Surrender Certificate, (the "Certificate") shall only be done at rates calculated on the bases of the fund's cover rate.

2. The exporter shall as heretofore, be required by the Chinese Maritime Customs (CBC 8a revised) issued by an appointed bank before the export shall be permitted to pass customs.

3. The appointed bank is hereby authorized to issue such export certificate (CBC 8a revised) under the following conditions:

(a) To the best judgment of the appointed bank, the declaration made by the exporters regarding the quantity, quality, and foreign exchange value of the relative export is true and correct and in accordance with the rules of the Central Bank, the Export-Import Board (the "Board") and the Chinese Maritime Customs.

(b) In the case of a shipment under a letter of credit, the exporter shall have made a cash sale to the appointed bank of the declared amount of foreign exchange; and in the case of a consignment, the exporter shall give an undertaking to the appointed bank to surrender the declared amount of foreign exchange within the time limit required by the Central Bank's circular No. 85, and in turn the appointed bank shall be considered to have committed to the Central Bank to the same effect.

4. The appointed bank after having made a cash purchase of foreign exchange, being the proceeds of an export shipment against a letter of credit or on consignment, may on behalf of the Central Bank issue a certificate to the exporters (Note: in the case of a consignment shipment, the appointed bank may only issue a certificate when the export is sold abroad and foreign exchange proceeds thereof is actually realized and sold in cash to the appointed bank).

5. In the case of a consignment shipment, the certificate may only be issued not later than the time limit specified in our circular No. 85, against the actual delivery of foreign exchange to an appointed bank by the exporter. If the delivery of exchange is later than the said time limit, no certificate shall be issued there against.

6. The appointed bank after issuing a certificate to an exporter on behalf of the Central Bank shall deliver to the Central Bank on the day the certificate is issued the duplicate copy of the certificate together with the following supporting documents:

(a) A copy of the relative export certificate (CBC 8a revised) duly signed by the exporter and certified by the appointed bank.

(b) The appointed bank's exchange purchase contract (or memo) evidencing a cash purchase of foreign exchange by the appointed bank of the total amount of foreign exchange proceeds of the export shipment.

7. The Central Bank may, at its discretion, cancel its authorization to any appointed bank to act as its agent in issuing certificates on its behalf.

8. The appointed bank may accept remittances (including remittances from overseas Chinese, foreign governments, missionaries, philanthropical organizations, etc.) and foreign currency notes in China, (provided such currencies are convertible to U. S. dollars or pounds sterling). Such remittances shall be made payable:

(a) Only by an appointed bank in China, and

(b) With the qualifying clause "payable in Chinese National Currency at the appointed bank's buying rate, plus a remittance premium ruling on the date of payment."

9. The agent of an appointed bank may accept remittances in Chinese National Currency on the basis of the fund's rate, plus a remittance premium to be determined in accordance with the provisions under paragraph 21.

10. The appointed bank may also buy banker's draft, traveller's cheque and traveller's letter of credit issued by a foreign bank, which is not an agent of any appointed bank.

11. Upon delivery of foreign exchange under inward remittance and banker's drafts by the appointed bank to the Central Bank, the Central Bank shall issue to the appointed bank the relative special Exchange Surrender Certificate in the name of the appointed bank. Such special certificates may be sold to qualified importers, and others authorized to buy exchange from the appointed banks.

12. The appointed bank may not issue to itself certificates in respect of foreign exchange bought under the bank's draft and inward remittance.

13. The appointed bank acting as an agent for the Central Bank in handling foreign exchange remittance shall be required to register with the Central Bank its branches and correspondents who are to be agents of the appointed bank in handling such remittances.

14. The agent of an appointed bank abroad shall give an undertaking to the appointed bank that it will not accept remittances on behalf of the appointed bank in contravention to the provisions of this circular letter.

15. The agent of an appointed bank abroad shall keep the following records of all remittances, namely (a) the daily total, by foreign currencies, of the remittances, (b) the exchange rate, the remittance premium, bank charges (if any) and (c) the monthly total of remittances on the different import paying centers.

16. The Central Bank may, at its option, require the appointed bank on behalf of the Central Bank for the surrender of foreign exchange under export shipments. Such certificates shall bear the signatures of a senior officer of the Central Bank and of two senior officers of the appointed bank.

17. There shall be two kinds of certificates:

(a) The ordinary certificate to be issued by the appointed bank on behalf of the Central Bank for the surrender of foreign exchange under export shipments. Such certificates shall bear the signature of a senior officer of the Central Bank and of two senior officers of the appointed bank.

(b) The special certificate to be issued by the Central Bank for the surrender of foreign exchange under (a) banker's draft and inward remittance, (b) to the debit of a certificate account of an Appointed Bank or (c) under the instruction of the fund. Such special certificate shall bear two signatures of senior officers of the Central Bank.

18. A certificate is transferrable only by endorsement and only to an importer holding an import license or other person authorized to purchase exchange from an appointed bank. Once being transferred to an unqualified person, the certificate is invalidated.

19. The validity of a certificate for the purchase of foreign exchange shall not be more than seven days from the date of the certificate. The validity shall under no circumstance be extended.

20. The owner of a certificate may transfer his certificate to a qualified importer or other person authorized to purchase exchange from an appointed bank for a consideration to be determined by agreement between seller and buyer.

21. Since by handling inward foreign exchange remittances, the appointed bank shall receive special certificates, and since the appointed bank may sell the said certificates for a consideration, the remittance premium that the appointed bank shall quote to the remitter and subsequently pay to the beneficiary of the remittance should be in line with the certificate price that the appointed bank receives.

22. The appointed bank shall be required to open in the books of the Central Bank a certificate account in its name. A certificate deposited by an appointed bank to its certificate account may be withdrawn in special certificates at the request of the appointed bank to the debit of its account.

23. The appointed bank and the foreign exchange broker may assist their client in the sale and purchase of certificate provided they are satisfied that the buyers of the certificate are qualified persons, that is, appointed banks; persons with a valid import license; or other persons authorized to purchase exchange from an appointed bank.

24. The foreign exchange broker may not buy and sell certificates for his own account. The apointed bank may buy and sell certificates for its own account to help its clients to adjust the amount of their certificate to the amount of their import license or special authorization. Certificates in the hands of an appointed bank, at the end of a business day, shall be delivered to the Central Bank for deposit to its certificate account.

25. The balance on the certificate account of an appointed bank at the end of any business day shall not exceed US$1-million or its equivalent. The validity period in respect of the balance on a certificate account shall not be limited.

26. The amount of the certificate to be issued shall be 100% of the amount of foreign exchange surrendered. This ratio between the certificate and the amount of foreign exchange surrendered shall be determined, from time to time, by the fund, and is subject to change without notice.

27. The Central Bank, or appointed bank may, at the request of the owner of the certificate, divide the certificate into a number of certificates without any change in the total amount, date of expiry and other particulars, provided that such division by an appointed bank may only be made in respect of a certificate originally issued by it, and that the former certificate is cancelled and surrendered immediately to the Central Bank.

28. The importer applying for the purchase of foreign exchange from an appointed bank under an import license issued by the board shall, in addition to the existing requirements, be required to surrender to the appointed bank a like amount of certificate; except that import licenses issued for the importation of rice, wheat, flour, fertilizer, cotton and such other commodities as are designated by the authorities shall not be required to procure a certificate.

29. The possession of a certificate shall not be a prerequisite for the application for an import license; nor its possession oblige the board to issue an import license.

30. The appointed bank shall make a daily report of foreign exchange sold at the fund's rate under import license or for other authorization to purchase exchange. Such reports shall be accompanied by the original copies of the relative certificates whenever such a certificate is required. Such used certificates shall be clearly marked in ink with the word "cancelled" before being handed over to the Central Bank.

31. Any provision in the circulars of the Central Bank to the appointed banks which is at variance with the provisions of this circular is superseded and cancelled.

SECTION III

Procedural Rulings Pursuant to the Regulations Governing the Application for Imports Paid with Foreign Exchange Abroad Belonging to Overseas Chinese Nationals for Investment in Domestic Productive Enterprises

I.—These procedural rulings are hereby issued in pursuance of the regulations governing the application for imports paid with foreign exchange abroad belonging to overseas Chinese nationals for investments in domestic productive enterprises.

II.—In accordance with the provisions of Articles II, V and VI of the regulations, the applicant, before making application for imports, shall fill out in triplicate on the prescribed form the project and prospectus relative to the construction of new, or expansion of existing, enterprises and shall submit two copies to authority in charge for examination and one copy to the Export-Import Board for their files. The authority in charge shall complete the examination within 15 days from the date of the receipt of the application and, where field survey is deemed necessary, such survey and examination of the application shall be completed within two months. When the application is approved in accordance with the provisions of the Articles II, IV, and VI of the regulations, one copy shall be retained for record and another copy forwarded to the Export-Import Board which shall decide on the kind and quantity of imports and notify the applicant to file application for import license according to the existing rules and procedures relative thereto. On the issuance of the import license, the board shall notify relative authorities in charge accordingly.

III.—The authorities in charge as referred to in the preceding article, shall, according to the nature of the enterprises, be classified as follows:—

Ministry of Industries and Commerce: in charge of industries, handicrafts, mining, public utilities (water, electricity and gas).

Ministry of Agriculture and Forestry: in charge of agriculture, forestry, fishery, animal husbandry, fabrication of agricultural products.

Ministry of Communications: in charge of communications.

Ministry of Water Conservancy: in charge of water conservancy.

Export-Import Board: in charge of exports.

Where by their nature the enterprises concern more than two governmental bodies, the project and the prospectus shall be examined jointly by the authority in charge with the authority concerned.

IV.—Applicants filing application to the Export-Import Board for import license are required to produce documentary certification on the status of the overseas Chinese as owner of the oversea funds by the respective consular authorities or by one special commissioners' offices of the Ministry of Foreign Affairs in the respective localities and approved by the Overseas Chinese Affairs Commission.

V.—In accordance with the proviso of Article IV of the regulations, with respect to direct application to the Export-Import Board for license to import accessories and parts for replacement purposes, such applications shall be made in accordance with the existing procedure and shall be accompanied by documentary certification on the status of the overseas Chinese as owner of the oversea funds as provided for in the preceding article.

VI.—In accordance with the sub-paragraph (2) of Article II of the regulations, the removal to China of enterprises hitherto operated by Chinese overseas shall require the prior approval of the authorities in charge before applications to the Export-Import Board for import license may be made.

VII.—Imports provided for under sub-paragraphs (1), (2), (3) and (4) of Article IV of the regulations shall be limited to those listed in Schedules I, II and IIA of the Foreign Trade Regulations only.

VIII.—The time-limit specified for the shipment of imports and for the completion of construction work shall be fixed in accordance with sub-paragraphs (1) and (2) of Article III of the regulations. However, when due to *force majeure* and/or acts of God, shipment or completion cannot be effected within the specified time limit, application for extension may be made.

IX.—When imports under application are ordered and purchased through the intermediary of importers, it shall be limited to registered qualified importers only, if for the commodity under application there is registration of qualified importers and the importers shall counter-sign the application as provided for in Article X of the regulations.

X.—With respect of supervision as provided for in Article XI of the regulations, the Export-Import Board shall, together with other governmental bodies concerned, organize a supervisory committee for the purpose of control and supervision of which detailed procedures shall be drafted separately.

XI.—As provided for in Article VII of the regulations, upon approval of the kind and quantity of imports by the Export-Import Board, the applicant shall arrange to sell the goods to direct users and shall submit the sale contracts together with the application for import license, to the Export-Import Board for approval.

XII.—Until further notice, the sale agencies as provided for in sub-paragraph (2), Article VII of the regulations, shall be the Bank of China, the Bank of Communications, the Farmers' Bank of China, the Central Trust of China, the Postal Remittances and Savings Bank, the Central Cooperative Bank of China and business organizations designated by the authorities in charge. The sale proceeds shall within three days be deposited by the sale agencies with the government banks, to be payable in accordance with the stages of the approved project. The sale agencies shall report to the Export-Import Board on the sale contracts, date of sale and prices and may, at the request of the applicant, effect sales by installments according to the approved schedules of payments.

XIII.—In accordance with the proviso of Article VIII of the regulations, overseas Chinese nationals in applying for license to import goods purchased abroad shall submit documentary certification by respective consular authorities or special commissioners' officers of the Ministry of Foreign Affairs, on foreign exchange restrictions effective in the localities where these Chinese nationals reside, together with applications for import license to the Export-Import Board for scrutiny and approval.

XIV.—These procedural rulings shall come into force upon the approval of the Executive Yuan.

Regulations Governing the Application for Imports Paid with Foreign Exchange Abroad Belonging to Overseas Chinese Nationals for Investment in Domestic Productive Enterprises

Article I.—The term "productive enterprises" as herein used shall include manufacturing industries, mining, agriculture, forestry, fishery, animal husbandry, water conservancy, public utilities, transportation and communication, processing farm products for export and handicrafts

Article II.—The repatriation of foreign exchange of overseas Chinese nationals for the construction of new, or extension of existing, productive enterprises, shall comply with the following conditions:

(1) The productive enterprises are actually needed in China or their production will increase exports.

(2) Over one half of the principal raw materials required by such productive enterprises shall be obtainable in China.

The foregoing limitation shall not apply to the removal to China of productive enterprises hitherto operated by Chinese overseas.

Article III.—Applications for import licenses made under the preceding article hereof shall comply with the following conditions:

(1) The shipment of the capital goods under application shall be effected within eighteen months from the date of the issuance of the import license.

(2) The construction work of the enterprises concerned shall be completed within twenty-four months from the date of the issuance of the import license.

(3) The total value of capital goods, raw materials and equipment for new enterprises shall not be less than US$10,000 or its equivalent in other foreign currencies.

Article IV.—Applicants for imports permitted hereunder for the construction of new, or extension of existing, enterprises, shall submit the whole project and prospectus of construction or extension to the respective authorities for approval and, upon approval, apply to the Export-Import Board for import license, which shall authorize the importation of the following only:

(1) Capital goods (Schedule I of the Foreign Trade Regulations) actually for the applicant's own use.

(2) Necessary accessories of the aforementioned capital goods or supplies required for their installation.

(3) Equipment required for the project, which is unobtainable in China, and must be purchased from abroad.

(4) Raw materials needed for the project and strictly for the applicant's own use, not exceeding the quantities required for six-months' production.

However, for the maintenance of existing productive enterprises and for the continuance of their production, the applicant may apply direct to the Export-Import Board for license to import accessories and parts for replacement purposes with the foreign exchange of overseas Chinese nationals.

Article V.—Overseas Chinese nationals making investments in existing domestic productive enterprises may, when approved by the respective authorities-in-charge, apply to the Export-Import Board for license to import various articles in accordance with Article 4 of these regulations.

Article VI.—Where Chinese national currency is required in the construction of new, or extension of existing enterprises financed by overseas Chinese funds, or in other forms of investment in existing enterprises, the applicant may, upon the approval of the respective authorities, apply to the Export-Import Board for license to import goods falling under categories specified by the government. The Export-Import Board shall announce from time to time the categories of goods allowed to be imported hereunder in the light of domestic requirements.

Article VII.—Goods imported under the preceding article hereof may be disposed of by either of the following methods:

(1) Upon the prior approval of the Export-Import Board, the applicant may sell direct to productive enterprises requiring such goods, or

(2) The applicant may request the government-designated agency or agencies to sell for his account with the proceeds to be desposited with government-designated bank or banks for meeting Chinese currency payments in accordance with the stages of the approved projects.

Article VIII.—Where overseas Chinese nationals can not repatriate their funds owing to the foreign exchange restrictions being enforced in the localities where they reside, they may apply to the Export-Import Board for license to import commodities (as listed in the schedules of permissible imports) up to and not more than US$10,000 or equivalent in value which will be dealt with in accordance with the proviso of Article 7 hereof.

Article IX.—The status of overseas Chinese, as owner of overseas funds, shall be certified in writing by their respective Consular authorities or Special Commissioners' Offices of the Ministry of Foreign Affairs and approved by the Overseas Chinese Affairs Commission.

Article X.—When goods to be imported hereunder are ordered and purchased through importers, the application for import license shall be countersigned by the importer.

Article XI.—With respect to the construction of new, or extension of existing, enterprises, the applicant shall report monthly in writing to the respective authorities and the Export-Import Board on the progress of the work, the use of storage of supplies and raw materials under the project. When necessary, checking and inspection may be made by the authorities.

Article XII.—In case of re-sale for profit of the goods imported under Articles IV and V hereof, the applicant shall be subject to the penalty of permanent suspension of new material quotas and shall also be denied the privilege of applying for any other imports.

Article XIII.—Overseas Chinese nationals reporting for registration and transferring of their funds either totally or partially to the Central Bank of China or its appointed bank in accordance with the provisions of the regulations governing registration of foreign exchange deposits and assets abroad belonging to Chinese nationals, may apply to the Export-Import Board for license to import various commodities under the rulings governing the disbursement of foreign currency and exchange deposit with the Central Bank of China or its appointed banks.

Article XIV.—These regulations shall take effect on the date of their promulgation.

Imports Listed

Further, in accordance with the proviso of foregoing Article VI commodities allowed for importation in light of domestic requirements are specified as hereunder:

Rice, wheat, flour, cotton, wool, jute and gunny bags, hemp, India-rubber, crude rubber and rubber tires for motor vehicles, timber and railway sleepers, fertilizers, gasoline, fuel oil, lubricating oil, coal and coke, paper and wood pulp, cocoanut oil and raw materials for special pharmaceuticals.

Ruling Governing Clearance of Applications for Importation of Purchases from Abroad, Already Paid for Prior to August 19, 1948

I. —Applications for importation of contracted purchases already paid-for prior to August 19, 1948, with foreign assets abroad owned by either manufacturers, individuals, institutions or bodies, shall be filed with the Export-Import Board before December 31, 1948—over which time limit no such applications will be accepted for consideration.

II.—Various categories of purchases to be imported under these rulings shall be limited to those commodities which are defined as permissible imports under the rulings governing the disbursement of foreign currency and exchange deposit with the Central Bank of China or its appointed banks.

III.—The applicant under these rulings shall, in submitting an application for importation to the Export-Import Board, attach thereto a certifying letter on payment from his paying-bank abroad, or otherwise, a receipt voucher from his supplier if the payment has been made direct to the supplier abroad.

IV.—When a purchase abroad is only partially paid-for prior to August 19, 1948, it shall be allowed to be imported, provided, however, that the unpaid balance of the cost is to be paid in accordance with the provisions of the rulings governing the disbursement of foreign currency and exchange deposit with the Central Bank of China or its appointed banks.

In the event that the paid and the unpaid portions of a purchase can not be separated, the purchase in total shall not be allowed to be imported.

V.—These rulings shall come into effect upon approval by the Executive Yuan for promulgation.

Provisions Pursuant to the Rulings Governing Clearance of Applications for Importation of Purchases from Abroad, Already Paid for Prior to August 19, 1948

I.—Applications for imports under the rulings need not be sent through the agency of the appointed banks but may be directly addressed to the Import Licensing Office, if in Shanghai and, if in other ports, to the regional offices or sub-offices of the board.

II.—The applicants may obtain blank forms of application in quadruplicate (the

original copy to be returned to the applicant when signed as approved to serve as import license, the duplicate and the triplicate copies to be sent respectively to the secretarial department of the Board and the Customs for checking and the quadruplicate to be retained for the file of the Import Licensing Office), fill in the particulars thereon and forward them to the Import Licensing Office.

III.—In sending an application for imports the applicant should attach thereon the following documents besides a letter certifying payment by the paying bank abroad or a payment receipt voucher from a foreign supplier.

(a) Invoice or evidences of contracted purchases.

(b) If the unpaid portion of a purchase is to be paid in accordance with the provisions of the "rulings governing the disbursement of foreign currency and exchange deposit with the Central Bank of China or its appointed banks" certification by the depositing bank is required.

IV.—When the unpaid portion of a purchase is not to be paid in accordance with the provisions of "the rulings governing the disbursement of foreign currency and exchange deposit with the Central Bank of China or its appointed banks," the purchase shall be dealt with in either of the following ways:

(a) If the units of a purchase are separable, the paid-for units shall be allowed to be imported while the unpaid-for units shall not be.

(b) If the unpaid-for and the paid-for portions of a purchase can not be separated (i.e. a piece of machinery), the purchase *in toto* shall not be allowed to be imported.

V.—When importation is desired of one lot of purchase consisting of assortment of goods falling under Schedules I, II, IIIa and IIIb, they need only be covered by one single application properly filled in and submitted to the Import Licensing Office.

VI.—Applications for imports under the rulings when approved to serve as import license shall bear the mark "PU" and be chop-stamped "Paid up Case."

Provisions Governing the Application for Imports by Foreign-Owned Productive Enterprises in China

I. Existing productive enterprises owned by foreign nationals in China applying for imports of equipments and accessories for replacement or extension purposes for their own use with their own foreign exchange abroad in accordance with the proviso of Article 4 of the regulations governing the application for imports paid with foreign exchange abroad belonging to overseas Chinese nationals for investments in domestic productive enterprises shall be governed by these provisions.

II.—The term "productive enterprises" as herein used shall include manufacturing industries, mining, agriculture, forestry, fishery, animal husbandry, water conservancy, public utilities, transportation and communication, processing farm products for export, handicrafts and other related productive enterprises.

III.—Equipment and accessories for replacement or extension purposes to be imported under these provisions shall include articles in the nature of equipment falling under Schedules I, II, IIIa of the Foreign Trade Regulations.

IV.—The applicant-firm in submitting an application for imports shall produce a letter from their head office abroad certifying that the imports have been paid for and are for their own use, duly approved by their Chamber of Commerce or Consulate Office in China.

Applications for imports as referred to in the preceding paragraph should be submitted directly to the Export-Import Board in Shanghai and will not be accepted by the regional or sub-offices of the board in other ports.

V.—Applications for imports under these provisions shall be dealt with in the usual manner as ordinary applications for imports.

VI.—In the case of re-sale for profit of the goods imported under these provisions, the applicant shall be subject to the penalty of being permanently denied the privilege of applying for any imports.

CHAPTER 24

AGRICULTURE

GENERAL REVIEW

Chinese agriculture is generally divided into two main types; namely, grazing and arable farming.

On the plateaus and steppe lands where temperature is low, growing seasons short and rainfall scanty, grazing on natural grasses is the fundamental type of agriculture. Cultivation is limited to small regions where favorable natural conditions prevail. This type of agriculture is found in the western part of Hsingan, northern Jehol, northern Chahar, northern Suiyuan, northern and western Ningsia, Sinkiang, western Sikang and Tibet.

Arable farming can be divided into four regions:

(1) *The Spring Wheat Region.*—Extends through Kirin, Sungkiang, Hokiang, Liaoning, Liaopei, Antung, southern Nunkiang, eastern Heilungkiang, southern and eastern Jehol, southern Chahar, southern Suiyuan, northern and western Kansu, southern and eastern Ningsia, northern Shansi, northern Shensi, eastern Chinghai, northwestern Szechwan and northern Sikang.

(2) *The Winter Wheat Region.*—Extends over Hopei, Shantung, northern Kiangsu, northern Anhwei, Honan, southern Shansi, southern Shensi, southern and eastern Kansu, northern Szechwan, southern and eastern Sikang, and northwestern Yunnan.

(3) *The Wheat and Rice Region.*—Stretches over the southern part of Kiangsu, northern Chekiang, southern Anhwei, all except the southern tip of Hupeh, eastern and central Szechwan, central Yunnan and northern Kweichow.

(4) *The Rice Region.*—Covers the southern part of Chekiang, Kiangsi and Hunan, the southern tip of Hupeh, Fukien, Kwangtung and Kwangsi, southern Kweichow and southern Yunnan.

The spring wheat region is the only arable farming area in China where no winter crops can be planted because of the low winter temperature. Crops must be started in the spring or early in the summer. One crop a year is the rule, with spring wheat as the chief crop. Barley, oats, millet, proso millet, peas, beans, hemp, flax and kaoliang are also cultivated. Throughout this region, livestock raising is an important undertaking. Wool production is widespread, but cotton is grown only in the Liaotung peninsula.

Roughly, the region extends from the northeast to the northwest. The northeastern section is often referred to as the "soybean-kaoliang region" inasmuch as these are its principal crops.

Winter wheat covers the most acreage, hence the name "winter wheat region." Barley is the main supplementary cereal. Other popular crops are kaoliang, millet, corn, cotton, tobacco, peanuts, beans and sweet potatoes. Double cropping is possible, but not common. Cattle and donkeys are raised as labor animals.

The wheat and rice region forms a transitional boundary between northern and southern agriculture. Rice is the most important summer crop in this region, while wheat is the principal winter crop. Other products are beans, peas, kaoliang, sweet potatoes, cotton, barley, rapeseed and oats. Cattle and water buffaloes are raised as farm animals. Since there is a surplus of cereals, productive animals (as contrasted with labor animals) are also raised.

Wheat growing is limited in the rice region, but two rice crops usually are grown a year, by interplanting or by double cropping. The former practice means planting late rice between the rows of early rice, while double cropping means planting late rice after the harvest of early rice. All kinds of labor and productive animals and citrus fruits can be found in this region.

Rice is the staple food for the people in the central and southern provinces of Szechwan, Hunan, Hupeh, Kiangsi, Kwangtung, Kwangsi, Yunnan, Fukien, Chekiang and Kiangsu, while wheat is eaten largely by those in the northern provinces of Hopei, Honan, Shantung, Shensi, Kansu, Ningsia and Chinghai. During the Sino-Japanese War, the production of rice in Free China was more than adequate while that of wheat, corn, millet, barley, kaoliang and soybeans fell short of demands. The differences, however were made up by restricting non-essential uses of cereals, such as the manufacture of wine.

PRODUCTION

The following is a comparative study of China's agricultural production during the prewar and the war years:

Rice, wheat and barley were the chief crops in China. When the war broke out in 1937, 22 provinces produced a total of 1,600-million piculs of unhusked rice, wheat and barley. The estimated yearly production of other important crops may be itemized as follows;

TABLE 1.—ESTIMATED YEARLY PRODUCTION OF IMPORTANT CROPS DURING PREWAR PERIOD

Crop	Production (Million Piculs*)
Unhusked rice	1,000
Wheat and barley	600
Sweet potatoes	400
Kaoliang	140
Millet	140
Corn	140
Soybeans	140
Field peas	60
Broad beans	60
Peanuts	60
Rapeseeds	60
Proso Millet	20
Oats	20
Sesame	20
Cotton	20
Tobacco	20
Total	2,900

Source: National Agricultural Research Bureau

* One picul equals 110 lbs.

The estimated yearly production of livestock is shown below:

TABLE 2.—ESTIMATED YEARLY PRODUCTION OF LIVESTOCK DURING PREWAR PERIOD

Kinds of Livestock	Number (Millions)
Labor Animals:	
Water buffaloes and cattle	30
Horses, donkeys and mules	20
Productive Animals:	
Poultry	300
Hogs	60
Sheep and goats	30
Total	440

Source: National Agricultural Research Bureau

During the war, 60% of the agricultural and livestock production of the country was carried out in Free China. This included 80% of all the rice produced; 40% of all the wheat; 70 to 80% of the kaoliang, millet, proso millet, soybeans, oats and cotton, and from 50 to 60% of the total yield of peanuts, sesame, corn and barley. Other crops were: field peas, broad beans, rapeseeds, sweet potatoes and tobacco.

Eighty percent of the water buffaloes were found in Free China provinces. Horses, mules, donkeys, goats and sheep were largely concentrated in the occupied and war areas, while hogs, chickens, ducks and geese were raised mostly in the hinterland.

Taking 1931-1937 as the prewar standard, the acreage of the winter and summer crops registered an increase of 1% in 1939, 2% in 1940, 3% in 1941, 6% in 1942, 8% in 1943, 9% in 1944, and 8% in 1945. While the acreage of the winter crops increased during these years, that of summer crops decreased by 1%.

Crop production registered an increase of 6% in 1938, 10% in 1939 and 2% in 1940, but it showed a decrease of 1% in 1941, and 2% both in 1942 and 1943. An increase of 8% was registered in 1944. In 1945, the production showed a drop of 1%.

Livestock production declined with the outbreak of the war in 1937. Taking 1937 as a base, 1938 registered a decrease of 3%, 1939, 1%; 1940, 7%; 1941, 10%; 1942, 13%; 1943, 16%; 1944, 15%; and 1945, 18%.

The following tables were compiled from reports of the National Agricultural Research Bureau, showing the acreage and production of six winter and 12 summer crops, and the raising of 11 kinds of livestock during 1945, 1946 and 1947.

TABLE 3.—CROP AND LIVESTOCK PRODUCTION IN CHINA
(Acreage in 1,000 *shih mow*, production in 1,000 piculs; livestock in 1,000 head)

Crops	Acreage of Crops (1931–1937 Average)			Production of Crops (1931–1937 Average)			Kinds of Livestock	Number of Livestock (1937)		
	22 Provinces	15 Interior Provinces	Per-centage	22 Provinces	15 Interior Provinces	Per-centage		22 Provinces	15 Interior Provinces	Per-centage
Winter Crops							Labor Animals			
Wheat	302,311	110,023	36	434,858	169,160	39	Water Buffaloes	11,574	9,218	80
Barley	101,079	51,604	51	157,427	83,553	53	Oxen	23,081	13,613	59
Field Peas	53,826	33,815	63	63,805	41,295	65	Horses	3,260	1,631	50
Broad Beans	42,071	29,249	70	60,360	44,120	73	Mules	3,624	1,068	29
Rapeseeds	59,554	42,494	71	49,460	36,642	74	Donkeys	9,018	2,480	28
Oats	15,538	2,341	15	17,612	2,961	17				
Summer Crops							Productive Animals			
Rice	267,448	210,868	79	911,918	726,315	80	Goats	15,744	8,121	52
Glutinous Rice	29,112	19,898	68	89,370	62,806	70	Sheep	12,411	5,048	41
Kaoliang	76,985	16,491	21	140,319	32,506	23	Hogs	59,704	39,759	67
Millet	80,502	17,283	21	132,971	25,137	19	Chickens	241,850	142,687	59
Proso Millet	24,262	7,254	30	31,606	10,069	32	Ducks	55,396	39,693	72
Corn	70,674	29,065	41	129,948	59,527	46	Geese	9,516	6,528	69
Soy Beans	78,536	23,818	30	121,855	39,518	32				
Sweet Potatoes	35,175	22,314	63	370,504	216,049	58				
Cotton	56,752	18,169	32	16,185	4,831	30				
Peanuts	22,839	9,247	40	54,788	19,956	36				
Sesame	21,746	9,294	43	17,016	6,911	41				
Tobacco	8,559	6,174	72	12,994	9,277	71				
Weighted Average			49			59	Weighted Average			55

Source: National Agricultural Research Bureau

TABLE 4.—ACREAGE OF IMPORTANT CROPS IN 15 FREE CHINA PROVINCES

Crops	Acarege (In 1,000 shih mow)								
	1931–1937 Average	1938	1939	1940	1941	1942	1943	1944	1945
Winter Crops									
Wheat	110,023	111,029	114,742	118,870	125,069	133,420	140,963	146,735	147,790
Barley	51,604	51,210	50,312	50,298	51,552	53,721	55,345	55,708	54,712
Field Peas	33,815	31,831	33,018	33,154	33,198	33,986	34,367	33,900	32,758
Broad Beans	29,249	30,048	29,805	29,568	29,633	30,493	30,936	30,606	30,308
Rapeseeds	42,494	43,740	46,401	54,469	56,489	56,008	59,976	61,458	59,645
Oats	2,341	2,282	2,399	2,310	2,358	2,381	2,388	2,337	2,280
SUB-TOTAL	269,526	270,140	276,677	288,669	298,299	310,019	323,975	330,744	327,493
Summer Crops									
Rice	210,868	206,341	207,048	198,714	198,258	202,689	199,095	200,955	196,267
Glutinous Rice	19,898	17,788	17,146	15,757	14,056	13,204	12,081	11,597	11,156
Kaoliang	16,491	16,076	15,700	15,634	15,661	15,675	15,183	14,983	14,431
Millet	17,283	16,274	15,311	14,487	14,371	14,520	14,887	14,455	14,449
Proso Millet	7,254	7,135	7,127	6,843	6,835	6,964	7,267	7,125	7,201
Corn	29,065	32,879	33,094	33,965	35,179	35,901	36,955	36,287	35,797
Soy Beans	23,818	22,368	22,468	23,328	22,868	22,611	22,080	21,335	21,061
Sweet Potatoes	22,314	25,193	25,616	27,469	28,941	29,800	30,906	31,708	32,385
Cotton	18,169	17,602	18,055	21,514	21,216	20,296	21,565	23,619	25,058
Peanuts	9,247	9,160	9,463	10,062	10,197	10,256	10,382	10,704	10,713
Sesame	9,294	9,057	9,771	10,505	10,183	9,803	10,030	10,538	10,798
Tobacco	6,174	6,057	6,187	6,626	6,124	5,892	5,930	5,890	5,943
SUB-TOTAL	389,875	385,930	386,986	384,904	383,889	387,611	386,361	389,196	385,259
GRAND TOTAL	659,401	656,070	663,663	673,573	682,188	697,630	710,336	719,940	712,752

Source: National Agricultural Research Bureau

TABLE 5.—CROP PRODUCTION IN 15 FREE CHINA PROVINCES

Crops	Production (in 1,000 piculs)								
	1931–1937 Average	1938	1939	1940	1941	1942	9143	1944	1945
Winter Crops									
Wheat	169,160	202,911	198,188	201,110	105,120	209,729	199,169	248,264	215,991
Barley	83,553	90,338	91,534	85,831	73,797	89,363	81,042	92,387	79,877
Field Peas	41,295	43,694	47,172	43,064	37,548	42,217	37,295	43,675	37,975
Broad Beans	44,120	47,644	52,359	47,715	41,906	47,617	43,871	49,135	40,061
Rapeseeds	36,642	35,846	43,111	48,539	45,630	44,140	48,527	49,650	39,245
Oats	2,961	3,118	3,375	3,048	2,877	3,094	2,916	2,911	2,323
WEIGHTED AVERAGE	..	..	..	..	..	..	..	..	..
Summer Crops									
Rice	726,315	747,569	763,649	618,863	643,519	635,299	609,488	674,715	586,017
Glutinous Rice	62,802	58,932	56,589	43,347	40,634	36,940	33,273	34,303	32,170
Kaoliang	32,506	33,997	34,299	31,264	29,665	24,044	28,055	27,467	29,449
Millet	25,137	23,814	23,990	21,171	20,706	14,754	17,915	17,456	20,909
Proso Millet	10,069	9,269	9,645	8,631	10,108	9,589	11,288	9,342	8,310
Corn	59,527	70,371	71,293	67,039	66,533	58,496	64,899	67,304	72,631
Soy Beans	39,518	36,470	37,646	38,576	34,714	29,406	33,334	32,950	33,773
Sweet Potatoes	216,049	276,550	248,662	256,404	277,096	242,606	290,284	303,431	306,397
Cotton	4,831	4,688	5,833	6,078	5,381	4,534	5,676	5,100	7,273
Peanuts	19,956	21,901	22,420	22,799	22,848	20,147	21,384	21,777	22,018
Sesame	6,911	5,451	8,008	8,221	7,351	4,840	6,752	7,036	8,168
Tobacco	9,277	8,934	9,811	10,269	8,516	7,564	8,259	8,345	8,070
WEIGHTED AVERAGE	..	..	..	..	..	..	..	..	..
WEIGHTED AVERAGE (Winter and Summer Crops)	..	..	..	..	..	..	..	..	..

Source: National Agricultural Research Bureau

Table 6.—Livestock Production in 15 Free China Provinces

Number of Livestock (Unit: 1,000 Heads)

	1937	1938	1939	1940	1941	1942	1943	1944	1945
Labor Animals									
Water Buffaloes	9,218	8,538	9,337	8,170	8,079	7,664	7,655	7,893	7,656
Oxen	13,613	13,717	13,736	12,929	12,727	12,695	12,074	12,114	11,881
Horses	1,631	1,508	1,560	1,512	1,410	1,284	1,275	1,262	1,110
Mules	1,068	870	1,015	988	835	692	710	693	638
Donkeys	2,480	2,192	2,403	2,199	2,103	1,997	1,923	1,954	1,733
Weighted Average	..	..	..	..	..	..	..	..	..
Productive Animals									
Goats	8,121	8,055	7,100	7,437	7,171	6,715	6,590	7,019	6,837
Sheep	5,048	4,882	4,711	4,834	4,210	4,056	4,027	4,048	3,889
Hogs	39,759	39,646	38,444	38,720	37,740	35,826	32,971	32,994	32,666
Chickens	142,687	144,949	142,775	135,244	126,941	116,936	115,834	117,129	108,536
Ducks	39,693	37,976	40,914	39,047	36,405	33,437	32,886	35,098	33,481
Geese	6,528	5,066	4,767	5,721	5,247	4,284	3,887	4,310	4,188
Weighted Average	..	..	..	..	..	..	..	..	..
Weighted Average (Labor and Productive Animals)	..	..	..	..	..	..	..	..	..

Source: National Agricultural Research Bureau

Table 7.—Acreage of Winter Crops, 1945
(Unit: 1,000 *Shih Mow*)

Province	Wheat	Barley	Field Peas	Broad Beans	Rape-seeds	Oats
Chahar	..	..	..	..	..	..
Suiyuan	..	..	..	..	..	..
Ningsia	375	127	357	26	14	23
Chinghai	2,433	1,391	703	406	830	572
Kansu	8,742	1,433	981	328	1,375	676
Shensi	19,472	2,648	2,030	297	1,815	93
Shansi	..	..	..	..	..	..
Hopei	..	..	..	..	..	..
Shantung	..	..	..	..	..	..
Kiangsu	..	..	..	..	..	..
Anhwei	..	..	..	..	..	..
Honan	29,355	4,604	2,633	153	1,232	..
Hupeh	14,915	7,803	2,659	3,865	4,206	104
Szechwan	23,930	12,862	10,369	8,016	8,452	812
Yunnan	5,923	2,344	1,792	5,293	2,802	..
Kweichow	4,366	3,274	1,286	1,183	2,909	..
Hunan	5,563	2,054	2,115	4,093	9,796	..
Kiangsi	5,941	2,890	1,702	2,755	13,190	..
Chekiang	8,966	5,171	961	1,636	5,019	..
Fukien	7,990	2,640	768	209	2,399	..
Kwangtung	4,273	2,457	1,074	739	1,578	..
Kwangsi	5,546	3,014	3,328	1,309	3,028	..
Total	147,790	54,712	32,758	30,308	58,645	2,280

Source: National Agricultural Research Bureau

Table 8.—Production of Winter Crops, 1945
(Unit: 1,000 piculs)

Province	Wheat	Barley	Field Peas	Broad Beans	Rape-seeds	Oats
Chahar	..	..	..	..	..	..
Suiyuan	..	..	..	..	..	..
Ningsia	510	242	581	41	15	33
Chinghai	2,652	1,670	663	451	515	532
Kansu	7,580	1,282	769	271	731	465
Shensi	18,232	2,585	1,445	197	711	52
Shansi	..	..	..	..	..	..
Hopei	..	..	..	..	..	..
Shantung	..	..	..	..	..	..
Kiangsu	..	..	..	..	..	..
Anhwei	..	..	..	..	..	..
Honan	44,497	6,576	3,421	194	727	..
Hupeh	21,872	10,199	2,862	4,241	2,285	54
Szechwan	52,153	26,041	16,794	13,596	7,431	1,187
Yunnan	9,623	3,694	2,200	8,470	1,864	..
Kweichow	6,921	4,805	1,260	1,206	1,843	..
Hunan	6,057	1,998	1,136	3,813	4,640	..
Kiangsi	8,803	3,455	1,291	3,178	9,526	..
Chekiang	12,353	6,875	821	1,951	3,524	..
Fukien	11,664	3,936	637	249	1,665	..
Kwangtung	5,249	2,571	688	792	1,335	..
Kwangsi	7,825	3,948	3,407	1,411	2,433	..
Total	215,991	79,877	37,975	40,061	39,245	2,323

Source: National Agricultural Research Bureau